



Choose an area of interest:

Search

[Home](#) | [Member Services](#) | [News](#) | [Resource Library](#) | [Career Center](#) | [Professional Education](#) | [Marketplace](#) | [Investor Relations](#)

► Choose an area of interest:

[Accounting](#) | [A & A](#) | [Corporate Finance](#) | [Ethics & Compliance](#) | [Financial Planning](#) | [HR & Training](#) | [International](#) | [Legal](#) | [Students](#) | [Tax](#) | [Tech](#)

Blowing the Whistle on Tax Fraud Reaps Rewards

By R. Scott Oswald and Jason Zuckerman, The Employment Law Group

March 2, 2009 (SmartPros) - If disclosed properly, original information about violations of tax can result in an award up to 30 percent of the proceeds recovered by the IRS.

While preparing financial statements for your employer, you learn that the company has been shifting profits overseas to reduce its tax liability. Specifically, you discover that your employer has fictitiously transferred ownership of its drug patents to a company formed in the Caribbean and has claimed large deductions for purported royalties paid to the Caribbean company despite the fact that the Caribbean company does not truly own the patent. You know that this type of activity is unlawful but you are uncertain as to how you should proceed with this knowledge.

Before you report this tax fraud, consider whether you are eligible to receive an award from the Internal Revenue Service ("IRS"). If disclosed properly, original information about violations of tax can result in an award up to 30 percent of the proceeds recovered by the IRS. This article will provide an overview of the IRS Whistleblower Rewards Program.

IRS Whistleblower Rewards Program: In general

Under the IRS whistleblower provisions codified at 26 U.S.C. § 7623, an individual who discloses tax fraud is eligible to receive an award ranging from 15 percent to 30 percent of the proceeds recovered by the IRS. Even individuals who participated in the violation can recover an award, as long as the individual did not plan and initiate the violation and is not criminally charged. To qualify for an award, the tax, penalties, interest, and additional amounts in dispute must exceed \$2 million, and, if the allegedly noncompliant person is an individual, the individual's gross income must

Related Stories

[This Week in the SmartPros News & Insights Newsletter](#)

[Task Force Identifies 21 Practical Pointers for Public Company Auditors](#)

[Four Out of 10 Executives Reluctant to Disclose Significant Corruption Incident to Authorities](#)

[Analysis Shows Significant Impact of Corporate Integrity on 2008 Stock Returns](#)

Related Courses

exceed \$200,000.

Origin of the IRS Whistleblower Rewards Program

Prior to December 2006, the IRS offered little incentive for individuals to report tax fraud against the IRS. Indeed, under the old IRS whistleblower rewards program the IRS had the discretion not to provide any award to a whistleblower. Recognizing the critical role that whistleblowers can play in combating an estimated \$400 billion in unpaid taxes each year, Congress adopted a robust IRS whistleblower rewards program to help the IRS detect underreporting and nonpayment of tax.

What types of activities are considered tax fraud?

Examples of tax fraud or evasion include:

- Deliberately underreporting or omitting income
- Claiming false deductions
- Hiding or transferring assets or income
- Overstating the amount of deductions
- Making false entries in records
- Failing to report income earned in a stock exchange
- Maintaining two sets of books
- Misusing trusts
- Abusing charitable deductions
- Shifting profits overseas
- Transferring ownership of intangible property rights to offshore companies
- Discounting receivables to an unrelated foreign business entity

What protection is available to the tax fraud whistleblower?

The IRS will maintain the confidentiality of the whistleblower's identity throughout the initial investigation process. If however, the whistleblower's testimony is needed in a judicial proceeding to further the IRS' investigation, the whistleblower's identity may be revealed.

Procedures for disclosing tax fraud

A disclosure is more likely to result in an award if it includes documentation of fraudulent transactions, a solid paper trail, and detailed evidence demonstrating tax fraud. Disclosures that are speculative or lack concrete evidence of tax underpayment may not result in a whistleblower award. Where two whistleblowers disclose the same fraud, the whistleblower who made the original disclosure will receive the award.

The statute of limitations for making a disclosure under the IRS Whistleblower Rewards Program is three years from the time the tax return was filed. If the disclosure concerns an omission in excess of 25 percent of the gross income stated in a tax return filed with the IRS, the statute of limitations extends to six years.

IRS investigations can take years to complete, but a detailed disclosure can shorten the process. Accordingly, it is critical to work with an attorney to investigate the fraud and present it to the IRS in a manner that will increase the likelihood of receiving an award. In addition, an attorney can advise the whistleblower as to remedies for retaliation resulting from

LifeLock®
Official Site

lifelock.com

Stay Protected from
Hackers & Guard
Against Identity
Theft w/ LifeLock.



Get your Tax
ID Online

2014 Income
Tax Return

Don't Ignore
the IRS

disclosures to the IRS. After the IRS completes an investigation, the Whistleblower Office will issue a final determination regarding the whistleblower's award amount. If the whistleblower believes that the award does not adequately reflect his or her contributions, the whistleblower may appeal the IRS' decision to the Tax Court within 30 days.

Award payments are not made until there is a final determination of the tax liability owed to the IRS and the owed funds are collected by the IRS.

Monetary award for disclosure

Under the IRS Whistleblower Rewards Program, a whistleblower can receive up to thirty percent of any back taxes that the IRS recovers. Additionally, a whistleblower can receive up to thirty percent of the collected penalties and interest due on the back taxes recovered by the IRS. The statutory minimum for original source information is fifteen percent.

Likely increase in tax fraud prosecutions

As the deficit swells, the government will likely intensify its efforts to investigate and prosecute tax fraud. The IRS' Whistleblower Rewards Program provides a critical tool to the IRS to identify tax fraud and obtain original source information about the intricacies of fraudulent tax schemes.

R. Scott Oswald and Jason Zuckerman are Principals at The Employment Law Group law firm (www.employmentlawgroup.com) in Washington, D.C., where they litigate whistleblower and other employment-related claims on behalf of employees.

©2009 SmartPros Ltd. All rights reserved.

Would you recommend this article?

5 (yes, highly)
 4
 3
 2
 1 (no, not at all)

Comments:

[About SmartPros](#) | [Accounting Products](#) | [Professional Education](#) | [Marketing Services](#) | [Consulting](#) | [Engineering Products](#) | [PE Review Course](#) | [Contact Us](#)

© 2001-2013 SmartPros Ltd.