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Abused By IRS? Get \$1,000 Apology Pay -- But It's Taxed

I'm a big fan of National Taxpayer Advocate [Nina Olson](#). I usually like her ideas, but this one is unlikely to come true. After all, the IRS has much bigger problems than to start handing out money for apologies. The line for those payments would be pretty long.

Yet in her Report to Congress, she calls for \$1,000 'apology payments' to taxpayers abused by the IRS. The report ([IR-2013-63](#)) is her semi-annual report to Congress on [Fiscal Year 2014 objectives](#) as well as a special report to Congress on [Political Activity and the Rights of Applicants for Tax-Exempt Status](#).

Ms. Olson doesn't mince words, calling the IRS "an institution in crisis." Sure, there was the whole targeting scandal. But Olson is more worried about the inadequate funding and limited consideration to taxpayer rights. She has a point. And cash could help, she claims.

Olson first proposed apology payments in 2007 to help restore taxpayer confidence. She proposed capping them at a total of \$1 million a year. "The rationale for an apology payment is not to compensate the taxpayer fully for his or her time and frustration, but to serve as a symbolic gesture to show that



the government recognizes its mistake and the taxpayer's burden," Olson noted.

"These payments might enhance the public perception of the IRS and the tax system as just and fair." There would be an impact on the IRS too, she asserts. If taxpayers **knew** that complaining to the Taxpayer Advocate about unfair practices could result in a \$1,000 payment, the targeting of political groups might have come to light much earlier, she said.

Apart from the political criteria kerfluffle, Olson's report listed other systemic problems at the IRS that need to be fixed:

- Under-funding of the IRS has encouraged what she termed "a widget-based approach to tax administration, getting work done in a way that allows as little interference as possible to the employees charged with doing the work."
- No right of appeal: Public charities can appeal to the courts if the IRS doesn't give them a determination within 270 days. But groups applying for tax-exempt status as social welfare groups—like many of Tea Party groups—don't have that right. "This fundamental right to an appeal not only would provide the taxpayer with meaningful recourse and impartial oversight of IRS decisions, but it also would help develop case law and additional guidance in a complex area of law," Olson wrote. "Instead, taxpayers' applications languished for months and even years, violating their right to certainty."
- No tracking of applications: The IRS's systems don't allow it to track average case processing times or check up on old cases, "basic information needed to manage and plan its workload," the report said.

Will these \$1,000 apology payments commence? Not likely. Even if they do, the money will be taxed. Before 1986, many prizes and awards were tax-free. Now they are all taxable.

The IRS website warns that cash prizes and awards are taxed. It's true whether you win a drawing, quiz show, beauty contest, or lottery. Even the Nobel Prize is taxed. Plus, you must report the fair market value of merchandise or products. You are to list it all as [other income](#) on [Form 1040](#), Line 21.

The fact that IRS gets a piece of prizes can be an especially rude awakening for Nobel winners. [Martin Chalfie](#) won a Nobel in Chemistry but lamented the tax bill here: [Life After Winning a Nobel Prize](#). Still, winning still feels good. And winning from the IRS? Priceless.

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