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IRS Employees Gone Wild? Bonus Outrage Continues

Should IRS employees with conduct demerits or tax compliance problems get bonuses? You might see those as two separate issues, but for many, the answer to both questions should be no. And the revelation that the IRS answered yes to both questions and *awarded* them leaves some scratching their heads.

Congressman Sam Johnson (R-TX), is a member of the powerful Ways and Means Committee. He has expressed outrage over the recent report from the Treasury Inspector General for Tax Administration about these IRS employee bonuses. The report reveals that the IRS paid out cash bonuses and various other perks to IRS employees with tax problems and conduct problems.

Congressman Johnson said, "This is outrageous! As I've said before, the IRS is out-of-control and out-of-touch. At a time when the IRS is under investigation for targeting Americans based on their beliefs and recent reports revealed IRS workers engaging in political activities on the job, the agency has the audacity to hand out taxpayer dollars to tax cheating employees. The IRS is essentially telling its employees: break the law and we will reward you. That's just wrong! I'm working on a bill that will send a clear and strong message to the IRS to stop such abuse of taxpayer dollars, once and for all."



Pile of Cash (Photo credit: 401(K) 2013)

The watchdog [report](#) in question covers the payment of performance bonuses to IRS employees as well as various other incentives and award payments. Cash bonuses, time off awards and other perks are awarded by the IRS. But the report says that IRS employees with misconduct and other faults still get the bonuses and other perks. This is hardly an isolated problem.

The report reveals that the IRS brass handing out the awards simply did not consider employee misconduct. According to the Inspector General, more than 1,100 employees received cash awards totaling more than \$1 million and more than 10,000 hours in extra time off. The IRS Restructuring and Reform Act of 1998 requires the IRS to fire workers with serious tax failures such as the failure to file tax returns).

However, the reports says the IRS does not take into account whether an employee has a tax problem when it comes to providing bonuses and other awards. That may seem wrongheaded, and the IRS has already acknowledged that it needs to develop a system to track such matters and take them into account. Between October 1, 2010 and December 31, 2012, more than 2,800 IRS employees with recent bad conduct in their record received more than \$2.8 million in cash awards, more than 27,000 hours in time-off awards, and 175 quality step increases in their IRS employment.

More than 1,400 of the awarded IRS employees had some type of conduct issues, including late payment and/or nonpayment of federal taxes, government travel card misuse or delinquency, misconduct and fraud issues. How bad are the tax violations or problems that are in question for these employees? They vary, including such matters as the willful understatement of tax liabilities over multiple tax years, the late payment of tax liabilities, and underreporting of their income.

What about the misconduct issues? The IRS employee misconduct in question also varies significantly, from minor to major issues. Some incidents included drug use and violent threats. There were also incidents of fraud, including fraudulently claiming unemployment benefits, fraudulently entering attendance on timesheets, etc.

The IRS is committed to addressing this. However, as with so many other recent problems at the IRS, this undermines taxpayer confidence in a big way. In a tax system built largely on voluntary compliance, that really hurts.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.