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IRS Employees Act Up, Don't Pay Taxes But Still Get Bonuses---IRS Gone Wild?

A new report by the Treasury Inspector General for Tax Administration is unlikely to improve the picture. This latest watchdog [report](#) covers the payment of performance bonuses to IRS employees as well as various other incentives and award payments. That may sound like a yawn except for a key fact that is likely to shock most people in the business world.

When the IRS awards performance bonuses, the report states, the IRS doesn't distinguish between an employee who is unimpeachable and one who has been cited for misconduct. Come again, you ask? You heard right.

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.

How is that possible? Well, even something as fundamental as tax compliance issues—like employees of the tax agency failing to pay their own [taxes](#)—was not sufficient to nix an award. And the numbers are astounding.

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. Among these awards, more than 1,100 IRS employees with substantiated Federal tax compliance problems received more than \$1 million in cash awards, more than 10,000 hours in time-off awards, and 69 quality step increases within a year after the IRS substantiated their tax compliance problem.

These weren't isolated instances and they weren't old and cold. The report also notes that a 1998 federal statute actually *requires* the removal of IRS employees who have committed certain acts of misconduct. One act is if the IRS employee willfully fails to pay federal taxes. Despite this clear statute, notes the report, the IRS doesn't discriminate!

Is there a happy ending to this Alice in Wonderland Story? Sort of. The report says that in light of these findings, the IRS has agreed to change its policy in the future. Well, that's progress, but did someone not see this?

In any case, soon, there will be a policy that will require the management of the IRS to consider conduct issues resulting in disciplinary action *before* the agency awards all types of performance awards. Who would have thought it?

Considering that the U.S. tax system is built primarily on voluntary compliance, having confidence that we have a fair and impartial tax system is pivotal. That's one reason the IRS targeting scandal has so deeply undermined the trust people have in the tax agency. As we peel back layers from the IRS, it can seem harder and harder to apply normal standards.

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.