



Robert W. Wood

THE TAX LAWYER

Sep. 10 2011 — 10:43 am

Patient Tax Tattletales Can Earn Big

“Only the little people pay taxes,” was the ‘let them eat cake’ phrase ushering Queen of Mean [Leona Helmsley](#) into tax history. It’s not clear if the maid reporting the quip got anything out of it. Probably not.

These days it might be different, as long as the maid was terribly, terribly patient. Today your first thought would be: blow the whistle. After all, the ranks of tax whistleblowers, a kind of citizen-force-of-tax-collectors-on-commission, is growing.



Despite most people having an aversion to dealing with the IRS on their **own** tax issues, there’s great interest in siccing the IRS on someone else whom you have reason to believe isn’t paying his fair share. Whether it’s someone you encounter socially, in business or even a family member, an ‘only little people pay taxes’ remark today could ignite someone’s ire. The IRS hopes so.

Even the Wall Street Journal recently featured: [How to Turn in Your Neighbor to the IRS](#). But don’t hyperventilate just yet. Tax whistleblowers often turn over what they **think** is key information to the IRS about a tax cheat only to find that the IRS isn’t able to turn it into cash. The IRS could doubt your information if it seems to be prompted by spite, as often occurs with disgruntled former employees or spouses.

Even if the IRS believes everything you say and does its best to pursue the case, results take time. Only **actual cash** in the IRS's hands will produce an award. That can take 5 years or more. Few cases seem to be actively pursued and even fewer net bucks.

Patience of Job. But tax whistleblowers must have the patience of Job. The [Government Accountability Office](#) has released Tax Whistleblowers: Incomplete Data Hinders IRS's Ability to Manage Claim Processing Time and Enhance External Communication ([GAO-11-683](#)).

This title isn't bestseller fare, but the report says claims take **years** to process. As of April 2011, about 66% of claims submitted in the first 2 years of the program (2007 and 2008) were still in process. Many cases have been rejected. There is scant data on timing or even the reasons why claims are rejected. That means improving efficiency may be tough, one reason some people are recommending that the IRS change how it tracks cases and informs Congress.

The award stakes improved materially in 2006 with new [Section 7623\(b\)](#), under which awards to tax whistleblowers are no longer discretionary. The new law says the whistleblower "shall" receive 15 to 30% of the collected proceeds. That's **shall**, not **may**. Procedural safeguards were added too. The 2006 law even added whistleblower appeal rights.

The IRS was required to create a [Whistleblower Office](#) reporting to the IRS Commissioner to implement the law. See [Whistleblower/Informant Award](#). Since then a [cottage industry](#) of tax whistleblowers and their lawyers has sprung up. Although there was a long dry spell, the [first award](#) has been paid. See [IRS Pays First Enhanced Whistleblower Award](#).

If your case involves less than \$2 million, your award can be as high as 15%. If your case involves \$2 million or more of tax, you might get as much as 30%. But the IRS needs to actually collect, and that may be tough. You may wait 5 years or more, and you'll mostly be in the dark.

For more, see:

[IRS Withholding on Whistleblower Awards Ignites Controversy](#)

[IRS Notice 2008-4](#)

[Rat out your boss, get paid by the IRS](#)

[Want To Be An IRS Whistleblower? Be Patient](#)

[IRS To Whistleblowers: “Thanks, But We’re Withholding!”](#)

*Robert W. Wood practices law with [Wood LLP](#), in San Francisco. The author of more than 30 books, including *Taxation of Damage Awards & Settlement Payments* (4th Ed. 2009, [Tax Institute](#)), he can be reached 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.*