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Be an IRS Whistleblower

If you suspect someone you know of evading taxes, you could become an IRS whistleblower and be handsomely rewarded. The bigger the amount of taxes the IRS retrieves, the bigger your reward is. The IRS has two reward incentives – for those who report cases of less than \$2 million in taxes, there's the small awards program that rewards you with as high as 15% of the taxes collected, then for those who bring in cases of \$2 million or more in taxes, there's the large awards program where you stand to get as much as 30% of the taxes recouped.

But the downside of the awards programs is that it takes a lot of time for the IRS to resolve each case. And the IRS does not accept every case that is brought to it, either. Often, there is a lot of procedure involved to get the IRS to consider and accept your case. Furthermore, although the IRS undertakes to protect your privacy, there is no guarantee you will not be sued by, say your employer who you turn in.

In April this year, the IRS made its first award in the large awards program – \$4.5 million awarded to an unnamed former accountant of a large financial services firm. This amount came up to 22% of the tax collected.

All this while, the payout by the IRS to whistleblowers has been small and infrequent, mainly because the IRS did not want to appear like bounty hunters. But since 2006, Congress initiated the large awards program by overhauling the special tax provisions on whistleblowers. From then till now, the IRS has had 1,328 qualified submissions involving nearly 10,000 people alleged to have evaded taxes.

At this point, a number of whistleblowers are hoping to be rewarded for large awards in cases involving payroll tax withholding, tax shelters, illicit foreign accounts or mundane corporate accounting matters like transfer pricing.

The law does not prohibit even convicted felons from receiving rewards. One such person is Bradley Birkenfeld, a former banker with UBS bank of Switzerland who was convicted for his role in helping the bank provide offshore accounts to wealthy American taxpayers who used them to hide their taxable assets. He is now serving a 40 month jail term. But Birkenfeld turned whistleblower on the bank which resulted in UBS paying the IRS \$780 million in fines.

Although experts believe Birkenfeld's role in the crime would lower whatever reward he will receive, his lawyers believe he will receive something for the good he has done.

If you wish to be a whistleblower, you should bear in mind the scale of the offence. The large awards program applies to an individual taxpayer who had gross income of more than \$200,000 for at least one of the years taxes were not paid. Awards are generally between 15% and 30%, based on taxes, penalties and interest.

Another thing to know is that the IRS wants information that is specific and credible. It must be fresh i.e. not nearing any statute of limitations expiry, and legally obtained in the course of business.

Finally, your reward is also taxable. Since it comes from the IRS, you can expect the tax to be deducted at source.