Whistleblower 21276-13W & 21277-13W v. Commissioner of Internal Revenue, 144 T. C. 469 (U. S. Tax Ct. 2015)

In a landmark ruling, the U. S. Tax Court clarified that whistleblowers are not required to submit information to the IRS Whistleblower Office before other IRS divisions to be eligible for awards under IRC § 7623(b). The case involved a husband and wife who assisted in a criminal investigation against a foreign business, leading to a $74 million recovery. The IRS had rejected their award claims as untimely, but the court ruled that such a timing requirement does not exist under the law, significantly impacting the administration of whistleblower awards and potentially increasing the number of eligible claims.

Parties

Whistleblower 21276-13W and Whistleblower 21277-13W (Petitioners) were the husband and wife who sought whistleblower awards. The Commissioner of Internal Revenue (Respondent) was the opposing party in this case, representing the IRS.

Facts

The petitioners, a husband and wife, were involved in a conspiracy to launder money and were arrested. To mitigate their punishment, they cooperated with various U. S. government agencies, including the IRS, by providing information about a foreign business (Targeted Business) that was helping U. S. taxpayers evade federal income tax. The husband devised a plan to lure a senior officer (X) of the Targeted Business to the U. S. , where X was arrested and subsequently agreed to cooperate with U. S. authorities. This cooperation led to the indictment and guilty plea of the Targeted Business, resulting in a payment of approximately $74 million to the U. S. government. The petitioners filed for whistleblower awards after learning of the program, but their applications were rejected by the IRS Whistleblower Office on the grounds that they were filed after the collection of proceeds from the Targeted Business.

Procedural History

The petitioners filed their Form 211 applications for whistleblower awards after the Targeted Business pleaded guilty and paid $74 million. The IRS Whistleblower Office rejected their claims as untimely and sent denial letters stating that no proceeds were collected based on the information provided by the petitioners. The petitioners appealed to the U. S. Tax Court, which held a partial trial to determine the eligibility of the petitioners for an award under IRC § 7623(b). The court focused on the issue of whether the petitioners were required to file their claims before providing information to other IRS divisions.

Issue(s)

Whether a whistleblower is required to file a Form 211 with the IRS Whistleblower

© 2025 SCOTUSreports.com. All rights reserved.

Office before providing information to other IRS divisions to be eligible for an award under IRC § 7623(b)?

Rule(s) of Law

IRC § 7623(b) allows the IRS to pay awards to individuals who provide information leading to the detection of underpayments of tax or the detection and prosecution of violations of internal revenue laws. The Tax Relief and Health Care Act of 2006 established the IRS Whistleblower Office, but did not specify that whistleblower information must be submitted to this office before any IRS action or examination is carried out.

Holding

The U. S. Tax Court held that a whistleblower is not required to file a Form 211 with the IRS Whistleblower Office before providing information to other IRS divisions to be eligible for an award under IRC § 7623(b). The court rejected the IRS's argument that such a timing requirement exists, clarifying that the Whistleblower Office is not the exclusive gatekeeper for whistleblower information.

Reasoning

The court's reasoning focused on the lack of explicit statutory language requiring whistleblowers to submit information to the Whistleblower Office before other IRS divisions. The court noted that the IRS's interpretation would lead to absurd results, such as duplicating resources and potentially exposing whistleblowers to retaliation. The court also pointed out that the Form 211 itself anticipates that whistleblowers may approach other IRS divisions first, as it requests information about the IRS employee to whom the violation was reported. Furthermore, the court found no evidence that the Whistleblower Office must conduct taxpayer examinations, as this would be beyond its institutional expertise and staff capabilities. The court's decision was influenced by the legislative intent to improve the efficiency and oversight of the whistleblower program, not to restrict eligibility based on timing.

Disposition

The court denied the IRS's motion in limine to confine its review to the timing issue and rejected the IRS's argument that the petitioners' claims were untimely. The case was remanded to the IRS Whistleblower Office for further consideration based on the court's holding that no timing requirement exists for submitting whistleblower information.

Significance/Impact

This decision significantly broadens the eligibility for whistleblower awards under IRC § 7623(b) by clarifying that there is no statutory requirement for whistleblowers to submit their information to the Whistleblower Office before other IRS divisions.

© 2025 SCOTUSreports.com. All rights reserved.

This ruling could lead to an increase in whistleblower claims and may encourage more individuals to come forward with information about tax evasion and other violations of internal revenue laws. The decision also highlights the need for the IRS to revise its procedures and forms to reflect the court's interpretation of the law, ensuring that whistleblowers are not discouraged from reporting violations due to perceived timing issues.

© 2025 SCOTUSreports.com. All rights reserved.