Whistleblower 21276-13W v. Commissioner of Internal Revenue, 147 T. C. 121 (2016)

In a landmark decision, the U. S. Tax Court expanded the definition of 'collected proceeds' under I. R. C. sec. 7623(b) to include criminal fines and civil forfeitures, not just tax payments. This ruling significantly broadens the scope of whistleblower awards, potentially increasing the financial incentives for reporting tax evasion and fraud. It clarifies that whistleblowers can receive awards based on a percentage of all proceeds collected by the government, not limited to those collected under Title 26.

Parties

Whistleblower 21276-13W and Whistleblower 21277-13W, petitioners, v. Commissioner of Internal Revenue, respondent.

Facts

The petitioners, a husband and wife, sought whistleblower awards under I. R. C. sec. 7623(b) for information leading to the detection of tax underpayments and violations of internal revenue laws. The targeted taxpayer pleaded guilty to conspiring to defraud the IRS, file false Federal income tax returns, and evade Federal income tax, in violation of 18 U. S. C. sec. 371. The taxpayer paid $74,131,694 to the Government, consisting of tax restitution of $20,000,001, a criminal fine of $22,050,000, a civil forfeiture of $15,821,000 representing gross fees received from U. S. clients, and relinquishment of claims to $16,260,693 previously forfeited. The IRS Whistleblower Office initially rejected the petitioners' claims as untimely, but the Tax Court held in a prior decision that the claims were timely and ordered the parties to resolve their differences. The parties agreed that the petitioners were eligible for an award of 24% of the collected proceeds, but disagreed on whether the criminal fine and civil forfeitures constituted 'collected proceeds' under sec. 7623(b).

Procedural History

The IRS Whistleblower Office initially denied the petitioners' claims for awards, administratively closing their cases. The petitioners appealed to the U. S. Tax Court. In Whistleblower 21276-13W v. Commissioner, 144 T. C. 290 (2015), the court held that the claims were timely, ordered the parties to attempt resolution, and retained jurisdiction. The parties subsequently agreed that the petitioners were eligible for an award of 24% of the collected proceeds, but could not agree on the amount of collected proceeds. The court then issued a supplemental opinion to address the issue of what constitutes 'collected proceeds' under sec. 7623(b).

Issue(s)

Whether criminal fines and civil forfeitures paid by a taxpayer in connection with a

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violation of internal revenue laws constitute ‘collected proceeds’ for purposes of calculating a whistleblower award under I. R. C. sec. 7623(b)?

Rule(s) of Law

I. R. C. sec. 7623(b)(1) provides that if the Secretary proceeds with any administrative or judicial action based on information brought to the Secretary’s attention by an individual, the individual shall receive an award of at least 15% but not more than 30% of the collected proceeds (including penalties, interest, additions to tax, and additional amounts) resulting from the action. The term ‘collected proceeds’ is not statutorily defined.

Holding

The U. S. Tax Court held that criminal fines and civil forfeitures paid by the taxpayer in connection with violations of internal revenue laws constitute ‘collected proceeds’ for purposes of calculating a whistleblower award under I. R. C. sec. 7623(b).

Reasoning

The court’s reasoning focused on statutory interpretation and the plain meaning of the term ‘collected proceeds’. The court noted that the language of sec. 7623(b)(1) is plain and expansive, using terms such as ‘any administrative or judicial action’, ‘any related actions’, and ‘any settlement in response to such action’. The court rejected the Commissioner’s argument that ‘collected proceeds’ should be limited to amounts collected under Title 26, holding that internal revenue laws are not limited to those codified in Title 26. The court cited examples of internal revenue laws found outside Title 26 and noted that the term ‘proceeds’ is broad and general. The court also distinguished between the discretionary award program under sec. 7623(a), which requires awards to be paid from collected proceeds, and the mandatory award program under sec. 7623(b), which uses collected proceeds only for calculating the award amount. The court concluded that criminal fines and civil forfeitures, being part of the total amount brought in by the Government as a result of the whistleblower’s information, constitute ‘collected proceeds’ under sec. 7623(b).

Disposition

The court awarded the petitioners $17,791,607, representing 24% of the total $74,131,694 paid by the taxpayer, including the tax restitution, criminal fine, and civil forfeitures.

Significance/Impact

This decision significantly expands the scope of whistleblower awards under I. R. C. sec. 7623(b) by including criminal fines and civil forfeitures in the definition of ‘collected proceeds’. It provides a strong incentive for whistleblowers to come forward with information about tax evasion and fraud, as they may now receive

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awards based on a broader range of government collections. The decision clarifies the distinction between the discretionary and mandatory whistleblower award programs and reaffirms the court's commitment to interpreting statutory language according to its plain meaning. The ruling may lead to increased whistleblower activity and more aggressive enforcement of tax laws by the IRS.

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