Whistleblower 16158-14W v. Commissioner of Internal Revenue, 148 T. C. No. 12, 2017 U. S. Tax Ct. LEXIS 13 (U. S. Tax Ct. 2017)

In a significant ruling, the U. S. Tax Court clarified that whistleblower awards under Section 7623(b)(1) do not include proceeds from a taxpayer's voluntary compliance for years not examined by the IRS. The court rejected the whistleblower's claim that a corporation's change in withholding tax reporting after an IRS examination should count as "collected proceeds," affirming that only proceeds from direct IRS actions are eligible for awards. This decision underscores the narrow scope of whistleblower awards and emphasizes the importance of direct IRS action in determining eligibility.

Parties

The petitioner, Whistleblower 16158-14W, sought an award from the respondent, the Commissioner of Internal Revenue, for information provided regarding a taxpayer's alleged failure to withhold and pay over taxes. The case was heard by the United States Tax Court.

Facts

In January 2009, the whistleblower submitted a Form 211 to the IRS, alleging that a corporation failed to withhold taxes on payments of interest and dividends to foreign persons for the years 2006 through 2008. The whistleblower, an employee of the corporation, later supplemented the submission to include the years 2009 through 2014. The IRS expanded an ongoing audit for 2006 through 2008 to address the whistleblower's allegations but concluded the examination with a "no change" letter, indicating no adjustments were made. The IRS did not conduct an examination for the subsequent years, despite the whistleblower's additional submissions. The corporation updated its recordkeeping system after 2008, which the whistleblower claimed led to collected proceeds. The IRS Whistleblower Office denied the whistleblower's award claim, prompting the petition to the Tax Court.

Procedural History

The whistleblower timely petitioned the U. S. Tax Court upon receiving a determination letter from the IRS Whistleblower Office denying an award. The Commissioner filed a motion for summary judgment, arguing that the whistleblower was not entitled to an award due to the lack of collected proceeds. The whistleblower contended that the corporation's change in reporting for years after the IRS examination should be considered "collected proceeds. " The court held a hearing and ordered briefs, ultimately granting the Commissioner's motion for summary judgment.

Issue(s)

Whether amounts collected by the IRS as a result of a taxpayer's voluntary change in reporting for years not examined by the IRS constitute “collected proceeds” under Section 7623(b)(1) of the Internal Revenue Code?

Rule(s) of Law

Section 7623(b)(1) of the Internal Revenue Code provides that a whistleblower shall receive an award of 15% to 30% of the collected proceeds resulting from an administrative or judicial action based on information provided by the whistleblower. The term “collected proceeds” is not defined in the statute but has been interpreted by the court as “all proceeds collected by the Government from the taxpayer” resulting from such actions.

Holding

The court held that amounts collected by the IRS due to a taxpayer’s voluntary change in reporting for years not examined by the IRS do not constitute “collected proceeds” under Section 7623(b)(1). Therefore, the whistleblower was not entitled to an award for the years 2006 through 2008, as there were no collected proceeds from those years, nor for the subsequent years, as no administrative or judicial action was taken by the IRS for those years.

Reasoning

The court’s reasoning focused on the statutory requirement that an award under Section 7623(b)(1) must be based on collected proceeds resulting from an IRS action. The court noted that the IRS did not take any action for the years after 2008, and thus, any changes in the taxpayer’s reporting for those years were not attributable to an IRS action. The court emphasized that “collected proceeds” are limited to those resulting directly from IRS actions, not from a taxpayer’s voluntary compliance. The court also considered the administrative burden and speculative nature of attributing voluntary compliance to IRS actions, rejecting the whistleblower’s argument that the IRS should monitor changes in reporting post-examination. Furthermore, the court found no evidence of a “related action” or an “implied settlement” that would justify including the subsequent years’ proceeds as part of the award.

Disposition

The court granted the Commissioner’s motion for summary judgment, affirming that the whistleblower was not entitled to an award under Section 7623(b)(1) for the years in question.

Significance/Impact

This decision clarifies the scope of “collected proceeds” under Section 7623(b)(1), emphasizing that only proceeds resulting from direct IRS actions are eligible for whistleblower awards. The ruling may impact future whistleblower claims by limiting awards to proceeds directly resulting from IRS examinations, rather than from voluntary compliance or changes in taxpayer behavior post-examination. It also underscores the importance of the IRS taking specific actions in response to whistleblower information, as opposed to merely monitoring taxpayer behavior. This case may influence how whistleblowers and the IRS approach future claims and the interpretation of related regulations and Internal Revenue Manual provisions.