

IRS Whistleblower Office is hard at work, extra caution advised

Do you hate tax cheats enough to turn them in? In your own company? Would it matter if you received a portion of the IRS' recovery as a reward?

Recently, we [discussed](#) Payroll ethics and whether you'd break any ethical rules if you revealed someone's tax information. We touched briefly on letting the IRS know about tax irregularities at your employer.

The IRS' [Closer Look](#) project recently covered tax whistleblowing, so it's right we take another look at it.

Whistleblowing is all the rage

According to the IRS' fiscal year 2021 annual [whistleblower report](#), three of the 10 most common allegations that prompted whistleblowing involved payroll issues:

- Classifying workers as employees or independent contractors
- Underreporting wages
- Paying wages in cash or under the table.



Classifying workers as employees or independent contractors



Underreporting wages



Paying wages in cash or under the table.

As of Sept. 30, 2021 (the end of the federal government's fiscal year), the IRS [Whistleblower Office](#) successfully collected \$6.39 billion from non-compliant taxpayers and paid out more than 2,500 awards to whistleblowers, totaling more than \$1.05 billion.

Blowing the whistle

The Whistleblower Office is authorized to pay monetary awards in proportion to the value of the information provided. Awards could turn out to be substantial. (Yes, your portion of any award is taxable.)

To be eligible for an award, the tax, penalties, interest, additions to tax, and additional amounts in dispute must exceed an aggregate of \$2 million for businesses. Further, the facts, evidence, and other documents you provide must motivate the IRS to initiate an audit it otherwise wouldn't have undertaken.

There are some important factors to consider before contacting the Whistleblower Office:

- Your submission won't be anonymous. You must complete [Form 211](#). The IRS will try to keep your identity confidential, but it can't promise to do so. You may be called as a witness in a court case. While the IRS can't promise to protect your identity, you're protected from retaliation by [interim final regulations](#), issued by OSHA [earlier this year](#).
- If you're blowing the whistle on your current employer, bring all your evidence to the initial meeting. Due to IRS procedures, you only have one bite at the apple to persuade the IRS to proceed.
- Awards will be several years down the road. Awards will only be provided after the dispute comes to an absolute final conclusion, which includes court appeals.

If your claim is specific, timely, and credible, it may be referred for additional consideration to one of the IRS's operating divisions. For payroll taxes, the operating division is the Small Business/Self-Employed, which probably not coincidentally, had the highest number of referrals in FY 2021.

Any fish bites if you use good bait

Once the IRS begins an audit, it can look anywhere it wants. And corporate audits often lead to payroll audits.

Make your Payroll records audit-proof by taking the following steps:

- Ensure your Forms 941, 940, W-4, and W-2/W-3 are organized, collated, and coordinated. Your totals should agree.
- Ensure your supporting documentation—T & E reports, general ledger, trial balance, and the corporate minutes—corroborates entries on your 941s, 940s, and W-2s/W-3s.
- If there's an error, be sure there's a later record correcting the error.