



Treasury Inspector General for Tax Administration

FISCAL YEAR 2008 STATUTORY AUDIT OF COMPLIANCE WITH LEGAL GUIDELINES PROHIBITING THE USE OF ILLEGAL TAX PROTESTER AND SIMILAR DESIGNATIONS

Issued on May 23, 2008

Highlights

Highlights of Report Number: 2008-40-124 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement and Deputy Commissioner for Operations Support.

IMPACT ON TAXPAYERS

Congress enacted Internal Revenue Service (IRS) Restructuring and Revenue Reform Act of 1998 (RRA 98) Section 3707 to prohibit the IRS from labeling taxpayers as Illegal Tax Protesters or any similar designations. Overall, the IRS has eliminated most uses of this and similar designations. However, in some instances, IRS employees continued to refer to taxpayers by these designations in case narratives, which could stigmatize taxpayers and cause employee bias in future contacts with these taxpayers.

WHY TIGTA DID THE AUDIT

This audit was initiated because TIGTA is required to annually evaluate compliance with the prohibition against using Illegal Tax Protester or any similar designations.

Prior to enactment of the RRA 98, the IRS used the Illegal Tax Protester Program to identify individuals and businesses using methods to protest the tax laws that were not legally valid. IRS employees referred taxpayers to the Illegal Tax Protester Program when they used these protest arguments that had been repeatedly rejected by the courts.

Congress enacted RRA 98 Section 3707 because it was concerned that some taxpayers were being permanently labeled and stigmatized by the Illegal Tax Protester designation, even though they had subsequently become compliant with the tax laws. The label could bias IRS employees and result in unfair treatment.

The purpose of our audit was to determine whether the IRS complied with RRA 98 Section 3707 and its own internal guidelines that prohibit officers and employees from referring to taxpayers as Illegal Tax Protesters or any similar designations.

WHAT TIGTA FOUND

The IRS has not reintroduced past Illegal Tax Protestor codes or similar designations on taxpayer accounts. In addition, IRS publications and the Internal Revenue Manual no longer contain any Illegal Tax Protester references. However, TIGTA found that out of approximately 65.2 million records and cases, there were 430 instances in which 349 employees had referred to taxpayers as Illegal Tax Protesters or similar designations in case narratives on IRS computer systems.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report.

In their response to the report, IRS management stated that they continue to discourage the use of Illegal Tax Protester or any similar designation in casework. However, IRS management disagrees with the reported benefit described in the report because taxpayers who disapprove of the tax system are treated in the same manner and given the same rights as any other taxpayer.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2008reports/200840124fr.pdf>

Email Address: inquiries@tigta.treas.gov

Phone Number: 202-927-7037

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