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(Original Signature of Member)

109TH CONGRESS
2^D SESSION

H. R. _____

To authorize appropriations for the purpose of establishing an office within the Internal Revenue Service to focus on violations of the internal revenue laws by persons who are under investigation for conduct relating to commercial sex acts, to establish a Whistleblower Office within the Internal Revenue Service, and to increase the criminal monetary penalty limitations for the underpayment or overpayment of tax due to fraud.

IN THE HOUSE OF REPRESENTATIVES

Mrs. MALONEY introduced the following bill; which was referred to the Committee on _____

A BILL

To authorize appropriations for the purpose of establishing an office within the Internal Revenue Service to focus on violations of the internal revenue laws by persons who are under investigation for conduct relating to commercial sex acts, to establish a Whistleblower Office within the Internal Revenue Service, and to increase the criminal monetary penalty limitations for the underpayment or overpayment of tax due to fraud.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. AUTHORIZATION OF APPROPRIATIONS FOR**
4 **TAX LAW ENFORCEMENT RELATING TO**
5 **HUMAN SEX TRAFFICKING.**

6 (a) AUTHORIZATION OF APPROPRIATIONS.—

7 (1) IN GENERAL.—There is authorized to be
8 appropriated \$2,000,000 for fiscal year 2007 for the
9 purpose of establishing an office within the Internal
10 Revenue Service to focus on violations of the inter-
11 nal revenue laws by persons who are under inves-
12 tigation by any office of Federal, State, or local law
13 enforcement for knowingly recruiting, enticing, har-
14 boring, transporting, or providing by any means a
15 person, knowing that—

16 (A) force, fraud, or coercion will be used to
17 cause the person to engage in a commercial sex
18 act, or

19 (B) the person has not attained the age of
20 18 years and will be caused to engage in a com-
21 mercial sex act.

22 (2) DEFINITIONS.—For purposes of paragraph
23 (1), the terms “commercial sex act” and “coercion”
24 shall have the meaning given such terms by section
25 1591(e) of title 18, United States Code.

1 (3) AVAILABILITY.—Any amounts appropriated
2 pursuant to the authority of paragraph (1) shall re-
3 main available for fiscal year 2008.

4 (b) ADDITIONAL FUNDING FOR OPERATIONS OF OF-
5 FICE.—Unless specifically appropriated otherwise, there is
6 authorized to be appropriated and is appropriated to the
7 office established under subsection (a)(1) for fiscal years
8 2007 and 2008 for the administration of such office an
9 amount equal to the amount of any tax under chapter 1
10 of the Internal Revenue Code of 1986 (including any inter-
11 est) collected during such fiscal years as the result of the
12 actions of such office, plus any civil or criminal monetary
13 penalties imposed under such Code relating to such tax
14 and so collected.

15 (c) REPORT.—Not later than 1 year after the date
16 of the enactment of this Act, the Secretary of the Treasury
17 shall report to the Committee of Ways and Means of the
18 House of Representatives and the Committee on Finance
19 of the Senate on the enforcement activities of the office
20 established under subsection (a)(1) and shall include any
21 recommendations for statutory changes to assist in future
22 prosecutions under this section.

23 (d) APPLICABILITY OF WHISTLEBLOWER AWARDS TO
24 VICTIMS OF HUMAN SEX TRAFFICKING.—For purposes of
25 making an award under paragraph (1) or (2) of section

1 7623(b) of the Internal Revenue Code of 1986 with re-
2 spect to information provided by any person caused to en-
3 gage in a commercial sex act (within the meaning of sec-
4 tion 1591(c)(1) of title 18, United States Code), the deter-
5 mination whether such person is described in such para-
6 graph shall be made without regard to paragraph (3) of
7 such section 7623(b).

8 **SEC. 2. WHISTLEBLOWER REFORMS.**

9 (a) IN GENERAL.—Section 7623 (relating to ex-
10 penses of detection of underpayments and fraud, etc.) is
11 amended—

12 (1) by striking “The Secretary” and inserting
13 “(a) IN GENERAL.—The Secretary”,

14 (2) by striking “and” at the end of paragraph
15 (1) and inserting “or”,

16 (3) by striking “(other than interest)”, and

17 (4) by adding at the end the following new sub-
18 sections:

19 “(b) AWARDS TO WHISTLEBLOWERS.—

20 “(1) IN GENERAL.—If the Secretary proceeds
21 with any administrative or judicial action described
22 in paragraph (5) based on information brought to
23 the Secretary’s attention by an individual, the Sec-
24 retary shall, as determined by the Whistleblower Of-
25 fice and subject to paragraph (2), pay such indi-

1 vidual as an award at least 15 percent but not more
2 than 30 percent of the collected proceeds (including
3 penalties, interest, additions to tax, and additional
4 amounts) resulting from the action (including any
5 related actions) or from any settlement in response
6 to such action. The Whistleblower Office shall deter-
7 mine the amount of such award on the basis of the
8 extent to which the individual substantially contrib-
9 uted to such action.

10 “(2) AWARD IN CASE OF LESS SUBSTANTIAL
11 CONTRIBUTION.—

12 “(A) IN GENERAL.—If the Whistleblower
13 Office determines that the action described in
14 paragraph (1) is based principally on disclo-
15 sures of specific allegations (other than infor-
16 mation provided by the individual described in
17 paragraph (1)) resulting from a judicial or ad-
18 ministrative hearing, from a governmental re-
19 port, hearing, audit, or investigation, or from
20 the news media, the Whistleblower Office may
21 award such sums as it considers appropriate,
22 but in no case more than 10 percent of the col-
23 lected proceeds (including penalties, interest,
24 additions to tax, and additional amounts) re-
25 sulting from the action (including any related

1 actions) or from any settlement in response to
2 such action, taking into account the significance
3 of the individual's information and the role of
4 such individual and any legal representative of
5 such individual in contributing to such action.

6 “(B) NONAPPLICATION OF PARAGRAPH
7 WHERE INDIVIDUAL IS ORIGINAL SOURCE OF
8 INFORMATION.—Subparagraph (A) shall not
9 apply if the information resulting in the initi-
10 ation of the action described in paragraph (1)
11 was originally provided by the individual de-
12 scribed in paragraph (1).

13 “(3) REDUCTION IN OR DENIAL OF AWARD.—
14 If the Whistleblower Office determines that the
15 claim for an award under paragraph (1) or (2) is
16 brought by an individual who planned and initiated
17 the actions that led to the underpayment of tax or
18 actions described in subsection (a)(2), then the
19 Whistleblower Office may appropriately reduce such
20 award. If such individual is convicted of criminal
21 conduct arising from the role described in the pre-
22 ceding sentence, the Whistleblower Office shall deny
23 any award.

24 “(4) APPEAL OF AWARD DETERMINATION.—
25 Any determination regarding an award under para-

1 graph (1), (2), or (3) may, within 30 days of such
2 determination, be appealed to the Tax Court (and
3 the Tax Court shall have jurisdiction with respect to
4 such matter).

5 “(5) APPLICATION OF THIS SUBSECTION.—This
6 subsection shall apply with respect to any action—

7 “(A) against any taxpayer, but in the case
8 of any individual, only if such individual’s gross
9 income exceeds \$200,000 for any taxable year
10 subject to such action, and

11 “(B) if the tax, penalties, interest, addi-
12 tions to tax, and additional amounts in dispute
13 exceed \$20,000.

14 “(6) ADDITIONAL RULES.—

15 “(A) NO CONTRACT NECESSARY.—No con-
16 tract with the Internal Revenue Service is nec-
17 essary for any individual to receive an award
18 under this subsection.

19 “(B) REPRESENTATION.—Any individual
20 described in paragraph (1) or (2) may be rep-
21 resented by counsel.

22 “(C) SUBMISSION OF INFORMATION.—No
23 award may be made under this subsection
24 based on information submitted to the Sec-

1 retary unless such information is submitted
2 under penalty of perjury.

3 “(c) WHISTLEBLOWER OFFICE.—

4 “(1) IN GENERAL.—There is established in the
5 Internal Revenue Service an office to be known as
6 the ‘Whistleblower Office’ which—

7 “(A) shall at all times operate at the direc-
8 tion of the Commissioner and coordinate and
9 consult with other divisions in the Internal Rev-
10 enue Service as directed by the Commissioner,

11 “(B) shall analyze information received
12 from any individual described in subsection (b)
13 and either investigate the matter itself or assign
14 it to the appropriate Internal Revenue Service
15 office,

16 “(C) shall monitor any action taken with
17 respect to such matter,

18 “(D) shall inform such individual that it
19 has accepted the individual’s information for
20 further review,

21 “(E) may require such individual and any
22 legal representative of such individual to not
23 disclose any information so provided,

1 “(F) in its sole discretion may ask for ad-
2 ditional assistance from such individual or any
3 legal representative of such individual, and

4 “(G) shall determine the amount to be
5 awarded to such individual under subsection
6 (b).

7 “(2) REQUEST FOR ASSISTANCE.—

8 “(A) IN GENERAL.—Any assistance re-
9 quested under paragraph (1)(F) shall be under
10 the direction and control of the Whistleblower
11 Office or the office assigned to investigate the
12 matter under paragraph (1)(A). No individual
13 or legal representative whose assistance is so re-
14 quested may by reason of such request rep-
15 resent himself or herself as an employee of the
16 Federal Government.

17 “(B) FUNDING OF ASSISTANCE.—From
18 the amounts available for expenditure under
19 subsection (b), the Whistleblower Office may,
20 with the agreement of the individual described
21 in subsection (b), reimburse the costs incurred
22 by any legal representative of such individual in
23 providing assistance described in subparagraph
24 (A).

1 “(d) REPORT BY SECRETARY.—The Secretary shall
2 each year conduct a study and report to Congress on the
3 use of this section, including—

4 “(1) an analysis of the use of this section dur-
5 ing the preceding year and the results of such use,
6 and

7 “(2) any legislative or administrative rec-
8 ommendations regarding the provisions of this sec-
9 tion and its application.”.

10 (b) ASSIGNMENT TO SPECIAL TRIAL JUDGES.—

11 (1) IN GENERAL.—Section 7443A(b) (relating
12 to proceedings which may be assigned to special trial
13 judges) is amended by striking “and” at the end of
14 paragraph (4), by redesignating paragraph (5) as
15 paragraph (6), and by inserting after paragraph (4)
16 the following new paragraph:

17 “(5) any proceeding under section 7623(b)(4),
18 and”.

19 (2) CONFORMING AMENDMENT.—Section
20 7443A(c) is amended by striking “or (4)” and in-
21 serting “(4), or (5)”.

22 (c) DEDUCTION ALLOWED WHETHER OR NOT TAX-
23 PAYER ITEMIZES.—Subsection (a) of section 62 (relating
24 to general rule defining adjusted gross income) is amended

1 by inserting after paragraph (20) the following new para-
2 graph:

3 “(21) ATTORNEYS FEES RELATING TO AWARDS
4 TO WHISTLEBLOWERS.—Any deduction allowable
5 under this chapter for attorney fees and court costs
6 paid by, or on behalf of, the taxpayer in connection
7 with any award under section 7623(b) (relating to
8 awards to whistleblowers). The preceding sentence
9 shall not apply to any deduction in excess of the
10 amount includible in the taxpayer’s gross income for
11 the taxable year on account of such award.”.

12 (d) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to information provided on or after
14 the date of the enactment of this Act.

15 **SEC. 3. INCREASE IN CRIMINAL MONETARY PENALTY LIMI-**
16 **TATION FOR THE UNDERPAYMENT OR OVER-**
17 **PAYMENT OF TAX DUE TO FRAUD.**

18 (a) IN GENERAL.—

19 (1) ATTEMPT TO EVADE OR DEFEAT TAX.—
20 Section 7201 (relating to attempt to evade or defeat
21 tax) is amended—

22 (A) by striking “\$100,000 (\$500,000” and
23 inserting “\$500,000 (\$1,000,000”, and

24 (B) by striking “5 years” and inserting
25 “10 years”.

1 (2) WILLFUL FAILURE TO FILE RETURN, SUP-
2 PLY INFORMATION, OR PAY TAX.—

3 (A) IN GENERAL.—Section 7203 (relating
4 to willful failure to file return, supply informa-
5 tion, or pay tax) is amended—

6 (i) in the first sentence—

7 (I) by striking “Any person” and
8 inserting the following:

9 “(a) IN GENERAL.—Any person”, and

10 (II) by striking “\$25,000” and
11 inserting “\$50,000”,

12 (ii) in the third sentence, by striking
13 “section” and inserting “subsection”, and

14 (iii) by adding at the end the fol-
15 lowing new subsection:

16 “(b) AGGRAVATED FAILURE TO FILE.—

17 “(1) IN GENERAL.—In the case of any failure
18 described in paragraph (2), the first sentence of sub-
19 section (a) shall be applied by substituting—

20 “(A) ‘felony’ for ‘misdemeanor’,

21 “(B) ‘\$500,000 (\$1,000,000’ for ‘\$50,000
22 (\$100,000’, and

23 “(C) ‘10 years’ for ‘1 year’.

24 “(2) FAILURE DESCRIBED.—A failure described
25 in this paragraph is—

1 “(A) a failure to make a return described
2 in subsection (a) for a period of 3 or more con-
3 secutive taxable years if the aggregate tax li-
4 ability for such period is not less than
5 \$100,000, or

6 “(B) a failure to make a return if the tax
7 liability giving rise to the requirement to make
8 such return is attributable to an activity which
9 is a felony under any State or Federal law.”.

10 (B) PENALTY MAY BE APPLIED IN ADDI-
11 TION TO OTHER PENALTIES.—Section 7204 (re-
12 lating to fraudulent statement or failure to
13 make statement to employees) is amended by
14 striking “the penalty provided in section 6674”
15 and inserting “the penalties provided in sections
16 6674 and 7203(b)”.

17 (3) FRAUD AND FALSE STATEMENTS.—Section
18 7206 (relating to fraud and false statements) is
19 amended—

20 (A) by striking “\$100,000 (\$500,000” and
21 inserting “\$500,000 (\$1,000,000”, and

22 (B) by striking “3 years” and inserting “5
23 years”.

24 (b) INCREASE IN MONETARY LIMITATION FOR UN-
25 DERPAYMENT OR OVERPAYMENT OF TAX DUE TO

1 FRAUD.—Section 7206 (relating to fraud and false state-
2 ments), as amended by subsection (a)(3), is amended—

3 (1) by striking “Any person who—” and insert-
4 ing “(a) IN GENERAL.—Any person who—”, and

5 (2) by adding at the end the following new sub-
6 section:

7 “(b) INCREASE IN MONETARY LIMITATION FOR UN-
8 DERPAYMENT OR OVERPAYMENT OF TAX DUE TO
9 FRAUD.—If any portion of any underpayment (as defined
10 in section 6664(a)) or overpayment (as defined in section
11 6401(a)) of tax required to be shown on a return is attrib-
12 utable to fraudulent action described in subsection (a), the
13 applicable dollar amount under subsection (a) shall in no
14 event be less than an amount equal to such portion. A
15 rule similar to the rule under section 6663(b) shall apply
16 for purposes of determining the portion so attributable.”.

17 (c) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to actions, and failures to act, oc-
19 ccurring after the date of the enactment of this Act.