

109<sup>TH</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 6107

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.

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## IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 19, 2006

Mrs. MALONEY (for herself, Ms. WOOLSEY, and Mr. NADLER) introduced the following bill; which was referred to the Committee on Ways and Means

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## 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,*

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

4 (a) AUTHORIZATION OF APPROPRIATIONS.—

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

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

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

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

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

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

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

20           (d) APPLICABILITY OF WHISTLEBLOWER AWARDS TO  
21 VICTIMS OF HUMAN SEX TRAFFICKING.—For purposes of  
22 making an award under paragraph (1) or (2) of section  
23 7623(b) of the Internal Revenue Code of 1986 with re-  
24 spect to information provided by any person caused to en-  
25 gage in a commercial sex act (within the meaning of sec-

1 tion 1591(c)(1) of title 18, United States Code), the deter-  
2 mination whether such person is described in such para-  
3 graph shall be made without regard to paragraph (3) of  
4 such section 7623(b).

5 **SEC. 2. WHISTLEBLOWER REFORMS.**

6 (a) IN GENERAL.—Section 7623 (relating to ex-  
7 penses of detection of underpayments and fraud, etc.) is  
8 amended—

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

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

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

14 (4) by adding at the end the following new sub-  
15 sections:

16 “(b) AWARDS TO WHISTLEBLOWERS.—

17 “(1) IN GENERAL.—If the Secretary proceeds  
18 with any administrative or judicial action described  
19 in paragraph (5) based on information brought to  
20 the Secretary’s attention by an individual, the Sec-  
21 retary shall, as determined by the Whistleblower Of-  
22 fice and subject to paragraph (2), pay such indi-  
23 vidual as an award at least 15 percent but not more  
24 than 30 percent of the collected proceeds (including  
25 penalties, interest, additions to tax, and additional

1 amounts) resulting from the action (including any  
2 related actions) or from any settlement in response  
3 to such action. The Whistleblower Office shall deter-  
4 mine the amount of such award on the basis of the  
5 extent to which the individual substantially contrib-  
6 uted to such action.

7 “(2) AWARD IN CASE OF LESS SUBSTANTIAL  
8 CONTRIBUTION.—

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

1 such individual and any legal representative of  
2 such individual in contributing to such action.

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

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

21 “(4) APPEAL OF AWARD DETERMINATION.—  
22 Any determination regarding an award under para-  
23 graph (1), (2), or (3) may, within 30 days of such  
24 determination, be appealed to the Tax Court (and

1 the Tax Court shall have jurisdiction with respect to  
2 such matter).

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

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

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

12 “(6) ADDITIONAL RULES.—

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

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

20 “(C) SUBMISSION OF INFORMATION.—No  
21 award may be made under this subsection  
22 based on information submitted to the Sec-  
23 retary unless such information is submitted  
24 under penalty of perjury.

25 “(c) WHISTLEBLOWER OFFICE.—

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

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

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

13           “(C) shall monitor any action taken with  
14 respect to such matter,

15           “(D) shall inform such individual that it  
16 has accepted the individual’s information for  
17 further review,

18           “(E) may require such individual and any  
19 legal representative of such individual to not  
20 disclose any information so provided,

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

1           “(G) shall determine the amount to be  
2 awarded to such individual under subsection  
3 (b).

4           “(2) REQUEST FOR ASSISTANCE.—

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

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

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

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

4           “(2) any legislative or administrative rec-  
5           ommendations regarding the provisions of this sec-  
6           tion and its application.”.

7           (b) ASSIGNMENT TO SPECIAL TRIAL JUDGES.—

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

14          “(5) any proceeding under section 7623(b)(4),  
15          and”.

16          (2) CONFORMING AMENDMENT.—Section  
17          7443A(c) is amended by striking “or (4)” and in-  
18          serting “(4), or (5)”.

19          (c) DEDUCTION ALLOWED WHETHER OR NOT TAX-  
20          PAYER ITEMIZES.—Subsection (a) of section 62 (relating  
21          to general rule defining adjusted gross income) is amended  
22          by inserting after paragraph (20) the following new para-  
23          graph:

24          “(21) ATTORNEYS FEES RELATING TO AWARDS  
25          TO WHISTLEBLOWERS.—Any deduction allowable

1 under this chapter for attorney fees and court costs  
2 paid by, or on behalf of, the taxpayer in connection  
3 with any award under section 7623(b) (relating to  
4 awards to whistleblowers). The preceding sentence  
5 shall not apply to any deduction in excess of the  
6 amount includible in the taxpayer's gross income for  
7 the taxable year on account of such award.”.

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

11 **SEC. 3. INCREASE IN CRIMINAL MONETARY PENALTY LIMI-**  
12 **TATION FOR THE UNDERPAYMENT OR OVER-**  
13 **PAYMENT OF TAX DUE TO FRAUD.**

14 (a) IN GENERAL.—

15 (1) ATTEMPT TO EVADE OR DEFEAT TAX.—  
16 Section 7201 (relating to attempt to evade or defeat  
17 tax) is amended—

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

20 (B) by striking “5 years” and inserting  
21 “10 years”.

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

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

4 (i) in the first sentence—

5 (I) by striking “Any person” and  
6 inserting the following:

7 “(a) IN GENERAL.—Any person”, and

8 (II) by striking “\$25,000” and  
9 inserting “\$50,000”,

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

12 (iii) by adding at the end the fol-  
13 lowing new subsection:

14 “(b) AGGRAVATED FAILURE TO FILE.—

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

18 “(A) ‘felony’ for ‘misdemeanor’,

19 “(B) ‘\$500,000 (\$1,000,000’ for ‘\$50,000  
20 (\$100,000’, and

21 “(C) ‘10 years’ for ‘1 year’.

22 “(2) FAILURE DESCRIBED.—A failure described  
23 in this paragraph is—

24 “(A) a failure to make a return described  
25 in subsection (a) for a period of 3 or more con-

1           secutive taxable years if the aggregate tax li-  
2           ability for such period is not less than  
3           \$100,000, or

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

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

15          (3) FRAUD AND FALSE STATEMENTS.—Section  
16          7206 (relating to fraud and false statements) is  
17          amended—

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

20                  (B) by striking “3 years” and inserting “5  
21                  years”.

22          (b) INCREASE IN MONETARY LIMITATION FOR UN-  
23          DERPAYMENT OR OVERPAYMENT OF TAX DUE TO  
24          FRAUD.—Section 7206 (relating to fraud and false state-  
25          ments), as amended by subsection (a)(3), is amended—

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

3           (2) by adding at the end the following new sub-  
4           section:

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

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

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