



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Praises Senate Passage of IRS Whistleblower Help, Civil Rights Tax Reform, Charitable Giving Reform, Ban on Deduction of Government Fines, "Son of Boss" Item

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, praised Senate passage of greater incentives for whistleblowers at the Internal Revenue Service; the end of unfair taxation in civil rights cases; the reform of tax rules on charitable gifts of cars and intellectual property; a ban on companies' deduction of fines and penalties paid to the government for wrongdoing; and a provision related to "Son of Boss"-style tax shelters.

Grassley included the provisions in his *Jumpstart Our Business Strength (JOBS) Act*, which last night passed the Senate. The bill cuts taxes for U.S. factories and farms and is meant to head off more trade sanctions from Europe on those producers. Details of the whistleblower, civil rights, charitable giving, fine deduction, and "Son of Boss" provisions are:

**Whistleblower incentives at the Internal Revenue Service.** Right now, the IRS is allowed to pay rewards to whistleblowers, but there's no guarantee of a reward and, therefore, less incentive for whistleblowers. This provision models an IRS rewards program on the False Claims Act. It provides greater certainty and independent review for whistleblowers who are seeking a cash award for providing assistance to the IRS. In addition, it creates a whistleblower office at the IRS that would be dedicated to working with whistleblowers providing valuable information about tax violations.

"It's really a shame that one agency that could really benefit from whistleblowers doesn't encourage them," Grassley said. "It's important to empower whistleblowers to help catch tax cheats. This is long overdue. One well-positioned whistleblower could expose millions of dollars of fraud. It might take IRS auditors years to catch that much cheating on their own."

A whistleblower is trying to help the IRS determine whether the donor of four Stradivari instruments to the Smithsonian Institution in 1998 cheated the taxpayers by claiming a bigger tax break for the donation than deserved.

Grassley is the Senate author of the 1986 whistleblower amendments strengthening the False Claims Act. Those amendments have returned more than \$12 billion to the U.S. Treasury – \$1.6 billion from defense contractors alone.

**Civil rights cases.** Grassley has long worked to end a tax law fluke that forces plaintiffs who win settlements in civil rights cases and other lawsuits to pay income taxes on parts of the settlements they never see – in some cases even owing thousands of dollars more than they win. Several Iowa lawyers have written to Grassley out of concern for their clients in these cases.

“Tax relief gets the headlines, but part of tax relief is tax fairness,” Grassley said. “It’s clearly a fairness issue to make sure people don’t have to pay income taxes on income that was never theirs in the first place. That’s common sense.”

The Grassley provision approved by the Senate last night would, in effect, exclude from a plaintiff’s taxable income legal fees in certain civil rights suits, including those alleging job-related discrimination, and other lawsuits.

A well-known case is that of Cynthia C. Spina, an Illinois police officer. She secured a \$1.525 million settlement from her department after a long legal battle in which she alleged that she was a victim of sexual discrimination and harassment. But, through a quirk in the law, Spina’s tax bill on the settlement was in danger of erasing her gains and leaving her owing \$100,000 more.

“If we don’t fix this law, it could have a chilling effect on discrimination cases,” Grassley said. “Legitimately wronged people could have little recourse. A out-of-whack tax system is in danger of negating the value of discrimination lawsuits.”

**Charitable giving provisions.** Grassley and Sen. Max Baucus, ranking member, have been looking into charitable giving tax issues for some time. On car donations, the General Accounting Office and the Treasury Department agree that the amounts of deductions claimed by taxpayers often substantially exceed the fair market values of the donated vehicles.

“That means these taxpayers are taking everyone else for a ride,” Grassley said. “They’re taking a tax break they don’t deserve. Cars aren’t the only charitable gift in this category. Donations of land, art and intellectual property are all raising concerns. It’s important to reform these areas to allow taxpayers to take the deductions they’ve earned rather than what they’ve inflated. Under this proposal, the charities wouldn’t see any financial difference from what they receive now. Their paperwork burden would remain almost the same.”

Grassley’s provision approved by the Senate last night requires charities who receive donated vehicles and sell them to report the sale price to the donor and also to the IRS. Charities already have to send a letter to the donor acknowledging receipt. This would be another line in that letter. It would give taxpayers certainty in knowing what exact value to report to the IRS.

Grassley’s provision passed today also reins in the amount of value that taxpayers can claim for their donation of intellectual property such as patents to charities and foundations. Grassley and others have expressed concern about abusive inflated valuations of intellectual property.

**Deduction of fines and penalties.** Last year, some of the companies involved in the \$1.4 billion conflict-of-interest settlement with the Securities and Exchange Commission sought to deduct their share of payment from their taxes. Grassley and others felt this was inappropriate and

advanced this provision to prevent the deduction of fines and penalties paid to the government in cases of wrongdoing. This provision would apply retroactively to the global settlement firms.

**“Son of Boss” tax shelters.** The public Treasury has lost billions of dollars because of this particular abusive tax shelter. Grassley and Baucus are watching the IRS’ enforcement action closely. In the meantime, the JOBS Act includes their legislation ending the suspension of interest for taxpayers who buy listed tax transactions like the “Son of Boss” and others.

Grassley said he hopes the House will pass these provisions.