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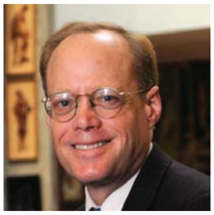

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Feds Paid $600K To Learn Why People Cheat On Their Taxes

With Tax Day upon us, everyone is a little annoyed with the government. Paying is rarely fun, and there are administrative hassles too. Yet we have to do it, and we must sign tax returns under penalties of perjury. However, like lemon juice in a paper cut, we now find that some of our hard-earned money is funding studies about why people might cheat on their taxes. Yes, it turns out that $600,000 of federal money went to this supposedly worthwhile topic.

Perhaps Shakespeare would say, 'To cheat or not to cheat, that is the question.' We clearly shouldn't, but people do come up with some creative excuses. Perhaps a new excuse for cheating is that we thought the federal government had no sense how to spend money. There are many tax excuses, and some work better than others. "TurboTax made me do it" worked for Timothy Geithner trying to get confirmed as U.S. Treasury Secretary. More recently, an academic paper says that random tax audits cause people to cheat more in the future. It bucks the traditional notion that the fear of a random audit makes you truthful. Plus, if you undergo an audit, you are doubly careful next time. That's the theory anyhow.

Wrong, says the paper by Toronto tax law professor Emily Ann Satterthwaite. The catchy title is: The Dynamic Effects of Audits: An Experimental Assessment. She says random audits *do not* deter cheating, and actually induce *more* cheating. She calls it the "bomb crater" effect.

Photographer: Michael Nagle/Bloomberg

But did we need to spend $600,000 on why people want to cheat on their taxes? The National Science Foundation–a federal agency–approved the 2015 proposal. NSF has an annual budget of $7.5 billion for fiscal 2016. Rather than a fancy study on this, perhaps we should be looking closer to home. Last year the IRS was in hot water again over a searing government report.

The report says some IRS employees cheat, and even if they are caught *willfully* violating the tax law, they are *unlikely* to be fired. A 1998 law *specifically directs* the head of the IRS he *must* fire them. Even so, the IRS fired only 39% of employees found to be willful tax cheats. The willful cheating included overstating expenses, repeatedly missing the tax deadline, and even claiming a tax credit for first-time home-buyers without purchasing a house.

In 10 years, the IRS caught 1,580 of its employees willfully violating tax law. Rather than firing them, in 61 percent of the cases, the willful cheaters were given counseling, reprimands or suspensions. What's more, some actually received bonuses or were promoted within a year of being caught red-handed. Just consider these findings:

- Over 10 years, the IRS identified nearly 130,000 suspected cases of tax violations by its own employees.
- IRS concluded about 10 percent were actual violations.
- Of 13,000 cases, 1,580 were intentional cheaters.

- But the managers refused to fire the employees 61% of the time.
- More than 2,000 employees had multiple red flags during the decade.
- Investigators pulled a sample of 15 cases where an employee had repeated intentional violations, and found that even there, the majority were allowed to remain on the job.

Knowing that some IRS employees willfully broke the tax law, were caught, and that the IRS looked the other way is disturbing. But maybe some cheating is universal. Like other universal truths, no one likes to pay taxes. For universal truths on pride, love, greed, envy, ambition and honor, we look to Shakespeare. It turns out he may have been a tax cheat too. So says academics who also claim Shakespeare was a hard-headed businessman.

Perhaps it takes a hard-headed business person to negotiate a deal about why people cheat. But maybe there are better uses for the money?

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.