

POLITICO

Drumroll, please: TIGTA releases IRS report - After report, Obama and Lew are quick to criticize - An inside look at what is it like to be probed by the IRS

By: Rachael Bade and Lauren French – May 15, 2013

DRUMROLL, PLEASE: TIGTA RELEASES IRS REPORT. It came out just hours after Attorney General Eric Holder announced the Justice Department is launching a criminal probe of the agency's actions targeting conservative groups. "The 48-page report is a stinging rebuke of an agency suddenly surrounded by scandal," write POLITICO's French and Kelsey Snell. As expected, the report says the IRS used inappropriate criteria to filter out conservative groups for extra scrutiny, which led to "substantial delays in processing certain applications and allowed unnecessary information requests to be issued." And worse: The report says the IRS hasn't totally fixed the problem.

AGENCY SPIN: The IRS in the report again denied that employees had a political bias when pulling out conservative groups for additional review. Instead the agency attributed the mistakes to the lack of process for handling spikes in applications and "insufficient sensitivity to the implications of some of the decisions made." "We believe the front-line career employees that made the decisions acted out of a desire for efficiency and not out of any political or partisan viewpoint," Joseph Grant, the acting commissioner for the tax-exempt division, wrote in a letter included in the report.

Have at it. Here's the report: <http://politico.pro/ZZu7FF> and Pro's summary: <http://politi.co/18JOGwl>

And POLITICO does its own little investigation. While the report calls foul on the IRS for requesting "irrelevant (unnecessary) information" from these conservative groups, it doesn't give that much detail on exactly what agents demanded. Fear not: Our colleagues David Nather, Tarini Parti and Byron Tau reviewed the document requests from almost a dozen of the groups scrutinized in 2012. They included: donor rolls, printouts of Facebook posts, what books people were reading, what issues were important to them and whether their organizations' top officers ever planned to run for office. Some were even asked for top officials' resumes and descriptions of interviews they'd done with reporters. "They were asking for a U-Haul truck's worth of information," Toby Marie Walker, the president of the Waco Tea Party, says in the story. Plus, "each letter had a stern warning about 'penalties of perjury' — which became intimidating for groups that were being asked about future activities, like future donations or endorsements," our journos write. A must-read: <http://politi.co/10xfw3f>

OBAMA REACTION: FIX THIS NOW. President Barack Obama released a statement calling the findings "intolerable and inexcusable." He said he instructed Treasury Secretary Jack Lew to hold those responsible accountable and implement the

inspector general's recommendations "quickly, so that such conduct never happens again." "The federal government must conduct itself in a way that's worthy of the public's trust, and that's especially true for the IRS," Obama said. "The IRS must apply the law in a fair and impartial way, and its employees must act with utmost integrity. This report shows that some of its employees failed that test."

LEW FOLLOWS UP saying he's "deeply troubled" by the report and expects the IRS to swiftly implement the recommendations included in the report. "While the inspector general found no evidence that any individual or organization outside the IRS influenced the decision to use these criteria, these actions were inappropriate and did not reflect the high standards which I expect and the public deserves," Lew said. "Like the American people, I have zero tolerance for any action that could undermine public confidence in the impartial and nonpartisan administration of the tax code."

AND DON'T MISS: The latest behind the curtain report from Mike Allen and Jim VandeHei on the District's least-popular fella: Barack Obama. <http://politi.co/12ziIhI>
READY, SET, WEDNESDAY. One day closer to the weekend — but, oh, Friday feels so far away! Send your tax tips to lfrench@politico.com. Or tweet me at

@**LaurenNFrench**. As always, please follow @**POLITICOPro**. Also, give a big thanks to Ms. Bade for lending a hand with Morning Tax — this tax gal sure appreciates it!

IRS SCANDAL GIVES HOPE FOR EMAIL PRIVACY BACKERS. From our friends over at Pro Technology: "Reps. Kevin Yoder and Tom Graves are seizing on a string of recent IRS controversies to seek new chamber support for the Email Privacy Act. In a 'dear colleague' letter, the two bill backers highlight recent revelations that the IRS 'targeted political groups for heightened surveillance and has a policy of searching emails without a warrant.' Consequently, the letter continues: 'Now more than ever, we need to reign in an overreaching government.' 'Currently, agencies like the SEC, IRS, and DOJ can get private content stored online by directly subpoenaing an internet service provider, like Google, without any judicial oversight using their administrative subpoena power,' they continued, before spelling out the contents of their bill. Their proposal, a companion to ECPA reform already introduced in the Senate, also has the support of Reps. Tom Graves, Mike Pompeo, John Fleming, Ted Yoho and Joe Barton."

THE FAIR TAX: A SOLUTION TO IRS WOES? Americans for Fair Taxation sees the Fair Tax as a logical answer to trouble with the tax-collection agency — because it would simply get rid of the IRS. One of the problems with the current tax system is that, unlike the Fair Tax, "it needs an agency like the Internal Revenue Service to be enforced," spokesman Steve Hayes told Morning Tax. "This recent thing from the IRS ... it just shows that you've got an agency that can get out of control and you've got a system that frankly is broken, and I think the fair tax is a better solution." The Fair Tax Act would replace the federal income tax, and most other taxes as well, with a 23 percent national sales tax — eliminating the need for the IRS. There are currently bills in both the House Ways and Means and Senate Finance committees, but, like in years past, they don't show much hope of leaving committee. Read the Joint Committee on Taxation's summary of the Fair Tax, pages 486-489: <http://politico.pro/16xRbT9>

— **The Baucus-Camp project.** Hayes added that Americans for Fair Taxation is hoping that TaxReform.gov, the website cobbled together by Sen. Max Baucus and Rep. Dave Camp to give citizens a way to share their thoughts on tax reform, would publicize the comments submitted by users.

FRANKLIN GRAHAM: IRS TARGETED US, TOO. From Reid Epstein, "The IRS came after Billy Graham, too, his son charged Tuesday in a letter to President Barack Obama. Franklin Graham, the president of the Billy Graham Evangelistic Association and the family's international humanitarian organization Samaritan's Purse, said that the IRS notified the organizations in September that it was conducting a 'review' of their

activities for tax year 2010. With the IRS admitting it gave extra scrutiny to conservative political organizations, Graham says he now believes that the review was part of an Obama administration effort of “targeting and attempting to intimidate us.”

IRS POLITICAL HISTORY REPEATS ITSELF. Surprise — this isn’t the first time the IRS has been wrapped up in politics. Accusations of misuse of the agency during the administrations of former presidents John F. Kennedy, Richard Nixon and Bill Clinton have been documented, and the FBI, including during the period when J. Edgar Hoover was at its helm, has used the tax agency as a weapon. “For much of the post-war period, the agency has failed to meet its mission of neutrality, bowing to political pressure and resisting repeated attempts at internal reforms. On multiple occasions, it has become embroiled in scandal due to exactly the sort of behavior that senior IRS officials now admit occurred between 2010 and 2012,” Time reports. Take a look at this must-read article: <http://ti.me/13uPHpM> And the Cato Institute published a study in 1999, after allegations that the Clinton administration was systematically manipulating the IRS, with a conclusion that’s still echoed today: “... both public-interest and private-interest motives shape IRS enforcement activity.” A throwback to

1999: <http://politico.pro/19qEgzj>

AND NOW, IN NON-IRS NEWS ...

THE SHRINKING DEFICIT. This a big news that got nearly wiped out because of all the IRS drama, but the CBO slashed its deficit projects by \$203 billion. “The CBO said the deficit will fall to \$378 billion by 2015 with no congressional action — a sharp contrast to the \$1 trillion recession-driven deficits in each of President Barack Obama's first four years in office,” Reuters reports. <http://reut.rs/16yAVRX>

FIRST LOOK: HERITAGE HITS OBAMA BUDGET. No shocker there, right? But today, Romina Boccia and Curtis Dubay today will argue in a blog that Obama’s IRA cap on retirement savings accounts would “increase the bias taxes already impose on savings.” Read it here when it posts at 9 a.m, here: <http://herit.ag/100N2zY>

CATCH THESE STORIES? QUICK CLICKS:

— Tax Policy Center expert Howard Gleckman had an op-ed in Time arguing that although the IRS was wrong to target conservatives, not all groups should be tax-exempt. <http://ti.me/13uRfQH>

— About 44 percent of surveyed shoppers say they would buy less if the Marketplace Fairness Act passes. <http://on.mash.to/19nPYe1>

— Gawker headline: “France Will Tax Smartphones to Fund Exceptional French Culture.” Read about how France is planning to levy taxes on smartphones, tablets and the like to fund artsy-fartsy things like film and music. <http://bit.ly/13hL6U8>

DID YOU KNOW? Kleenex was originally marketed as a cold cream remover, not a throwaway handkerchief.