

Why GAO Did This Study

According to the Internal Revenue Service (IRS), as of the end of fiscal year 2010, the balance of reported unpaid federal taxes was about \$330 billion. Given the many challenges that IRS faces, the enforcement of the tax laws and the tax code is on GAO's list of high-risk areas. GAO was asked to (1) determine, to the extent possible, the magnitude of known unpaid federal taxes for individuals who were issued passports in fiscal year 2008; and (2) identify examples of passport recipients who have known unpaid federal taxes. GAO reviewed data from the Department of State (State) and IRS. To identify examples for detailed audit and investigation, GAO chose a nonrepresentative selection of 25 passport recipients based on a number of factors, including amount of taxes owed. These case studies were chosen, among other things, by the more egregious amount of federal taxes owed and cannot be generalized beyond the cases presented.

What GAO Recommends

If Congress is interested in pursuing a policy of linking federal tax debt collection to passport issuance, it may consider taking steps to enable State to screen and prevent individuals who owe federal taxes from receiving passports. This could include asking State and IRS to jointly study policy and practical issues and develop options with appropriate criteria and privacy safeguards. State provided technical comments which we incorporated into the report as appropriate.

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FEDERAL TAX COLLECTION

Potential for Using Passport Issuance to Increase Collection of Unpaid Taxes

What GAO Found

State issued passports to about 16 million individuals during fiscal year 2008; of these, over 224,000 individuals (over 1 percent) owed over \$5.8 billion in unpaid federal taxes as of September 30, 2008. State is not authorized to restrict the issuance of passports to individuals because they owe federal taxes. In addition, federal law does not permit IRS to disclose taxpayer information, including unpaid federal taxes, to State officials unless the taxpayer consents. In contrast, federal law permits certain restrictions on the issuance of passports to individuals, such as individuals owing child support debts over \$2,500. For 2008, the estimated amount of unpaid federal taxes is likely understated because it excludes individuals who have not filed tax returns or underreported income. In addition, according to State officials, State cannot compel a passport applicant to provide a Social Security Number (SSN). As a result, State's records sometimes did not contain a valid SSN, which is necessary to match passport data to IRS data. Also, the number of passport holders and dollars owed only includes 1 year of passports that were issued, substantially understating the total tax debt for all passport holders.

GAO judgmentally selected 25 passport recipients to investigate for abuse related to the federal tax system or criminal activity. Of these cases, at least 10 passport recipients had been indicted or convicted of federal laws. In addition, IRS assessed trust fund recovery penalties on several passport recipients when the individual did not remit payroll taxes to the federal government. Rather than fulfill their role as trustees of this money and forward it to IRS, they diverted the money for other purposes. Willful failure to remit payroll taxes is a felony under U.S. law. Some of these individuals accumulated substantial wealth and assets, including million-dollar houses and luxury vehicles, while failing to pay their federal taxes. At least 16 passport recipients traveled outside the country while owing federal taxes. At least 4 passport recipients resided in another country at the time of GAO's investigation. Two individuals used the identities of deceased individuals to fraudulently obtain passports and then used these passports to travel to Mexico, France, and Africa. In one case, the unpaid tax debt belonged to a deceased individual, and in the other case, the debt was incurred by the imposter. We referred these 2 cases to IRS for further investigation.

Examples of Abusive and Criminal Activity

Type	Unpaid tax debt	Description
Gambler	\$46.6 million	The individual generally claimed to owe no taxes on returns filed in the early 2000s. Received about a \$2 million tax refund for one of these returns. Subsequent IRS tax examinations in the mid 2000s determined that the recipient actually owed tens of millions of dollars in taxes for those tax years. Gambled tens of millions of dollars at the same time the income taxes were not paid.
World Bank employee	\$300 thousand	Has not filed income tax returns in the 2000s. Generally failed to make any personal income tax payments or withholdings to IRS.
Department of State contractor	\$100 thousand	Owed personal income taxes and trust fund recovery penalties for failure to pay employment taxes. Did not file income tax returns for 2 years.

Source: GAO analysis of IRS, State, public, and other records.