RECOVERY ACT

Thousands of Recovery Act Contract and Grant Recipients Owe Hundreds of Millions in Federal Taxes

Why GAO Did This Study

The American Recovery and Reinvestment Act (Recovery Act), enacted on February 17, 2009, appropriated $275 billion to be distributed for federal contracts, grants, and loans. As of March 25, 2011, $191 billion of this $275 billion had been paid out.

GAO was asked to determine if Recovery Act contract and grant recipients have unpaid federal taxes and, if so, to (1) determine, to the extent possible, the magnitude of known federal tax debt which is owed by Recovery Act contract and grant recipients; and, (2) provide examples of Recovery Act contract and grant recipients who have known unpaid federal taxes.

To determine, to the extent possible, the magnitude of known tax debt owed by Recovery Act contract and grant recipients, GAO identified contract and grant recipients from www.recovery.gov and compared them to known tax debts as of September 30, 2009, from the Internal Revenue Service (IRS). To provide examples of Recovery Act recipients with unpaid taxes, GAO selected 15 Recovery Act recipients for further investigation. For the 15 cases, GAO found abusive or potentially criminal activity, i.e., recipients had failed to remit payroll taxes to IRS. Federal law requires employers to hold payroll tax money “in trust” before remitting it to IRS. Failure to remit payroll taxes can result in civil or criminal penalties under U.S. law. The amount of unpaid taxes associated with these case studies were about $40 million, ranging from approximately $400,000 to over $9 million. IRS has taken collection or enforcement activities (e.g., filing of federal tax liens) against all 15 of these recipients. GAO has referred all 15 recipients to IRS for further investigation, if warranted.

What GAO Found

At least 3,700 Recovery Act contract and grant recipients—including prime recipients, subrecipients, and vendors—are estimated to owe more than $750 million in known unpaid federal taxes as of September 30, 2009, and received over $24 billion in Recovery Act funds. This represented nearly 5 percent of the approximately 80,000 contractors and grant recipients in the data from www.Recovery.gov as of July 2010 that GAO reviewed. Federal law does not prohibit the awarding of contracts or grants to entities because they owe federal taxes and does not permit IRS to disclose taxpayer information, including unpaid federal taxes, to federal agencies unless the taxpayer consents. The estimated amount of known unpaid federal taxes is likely understated because IRS databases do not include amounts owed by recipients who have not filed tax returns or understated their taxable income and for which IRS has not assessed tax amounts due. In addition, GAO’s analysis does not include Recovery Act contract and grant recipients who are noncompliant with or not subject to Recovery Act reporting requirements.

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Examples of Recovery Act Contract and Grant Recipients with Unpaid Taxes

<table>
<thead>
<tr>
<th>Nature of Work</th>
<th>Total Recovery Act awards</th>
<th>Known unpaid federal taxes</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>Over $1 million</td>
<td>Over $700 thousand</td>
<td>Company primarily owes payroll taxes from the mid 2000s. The company generally did not make any federal tax deposits during that time. Company executive admitted to IRS to paying other creditors while neglecting to pay federal payroll taxes.</td>
</tr>
<tr>
<td>Health Care</td>
<td>Over $100 thousand</td>
<td>Over $4 million</td>
<td>Nonprofit organization owes payroll taxes primarily from the mid-2000s. On multiple occasions, the nonprofit organization submitted dishonored checks to IRS for payment of federal taxes.</td>
</tr>
<tr>
<td>Security</td>
<td>Over $100 thousand</td>
<td>Over $9 million</td>
<td>Company primarily owes payroll taxes from the mid 2000s. IRS records indicate that the company paid other creditors and expenses while not paying federal taxes. Department of Labor has cited company for violating federal labor laws.</td>
</tr>
</tbody>
</table>

Source: GAO analysis of IRS known tax debts as of 9/30/09 and Recovery.gov records as of 7/30/10.

View GAO-11-485 or key components. For more information, contact Gregory Kutz at (202) 512-6722 or kutzg@gao.gov.