



Highlights of [GAO-04-104T](#), a testimony to the Committee on Finance, U.S. Senate

# INTERNAL REVENUE SERVICE

## Challenges Remain in Combating Abusive Tax Shelters

### Why GAO Did This Study

Recent scandals involving corporations, company executives, and accounting, law, and investment banking firms heightened awareness of abusive tax shelters and highlighted the importance of the Department of the Treasury and the Internal Revenue Service (IRS) addressing them. During 1999, Treasury issued a report indicating that abusive shelters were a large and growing problem, involving billions of dollars of tax reductions. Treasury was concerned that abusive shelters could ultimately undermine the integrity of the voluntary compliance tax system.

GAO's statement today is based on work done at the request of the Chairman and the Ranking Minority Member of the Senate Committee on Finance to examine IRS's strategy for dealing with abusive tax shelters. In reporting on abusive shelters, GAO is describing

- their nature and scope,
- IRS's strategy and enforcement mechanisms to combat them and the performance goals and measures IRS uses to track its major effort in that area, and
- the decision-making process IRS used and the plans it has to devote more resources to addressing abusive shelters.

[www.gao.gov/cgi-bin/getrpt?GAO-04-104T](http://www.gao.gov/cgi-bin/getrpt?GAO-04-104T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or [brostekm@gao.gov](mailto:brostekm@gao.gov).

### What GAO Found

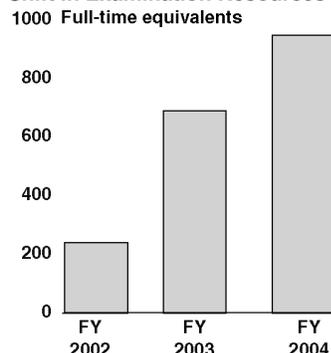
By their nature, abusive tax shelters are varied, complex, and difficult to detect and measure. Abusive shelters manipulate many parts of the tax code or regulations and may involve steps to hide the transaction within a tax return. In recent years, IRS has been accumulating information about them and, although it does not have a reliable measure of the size of the abusive shelter problem, has come to believe that abusive shelters deserve substantially increased attention. IRS continues to gather more information to better define the scope of the problem and has data sources, all with their own limitations, that suggest abusive tax shelters total tens of billions of dollars of potential tax losses over about a decade.

IRS's broad-based strategy for addressing abusive shelters included:

- targeting promoters to head off the proliferation of shelters;
- making efforts to deter, detect, and resolve abuse;
- offering inducements to individuals and businesses to disclose their use of questionable tax practices; and
- using performance indicators to measure outputs and some outcomes and intending to go down the path it has started and develop long-term performance goals and measures linked to those goals. Without these latter elements, Congress would find gauging IRS's progress difficult.

In allocating resources to shelters, IRS used a systematic decision-making process that relied on admittedly limited information. It planned to shift significant resources in fiscal years 2003 and 2004 to address abusive shelters but faces challenges, especially in the near term, in addressing abusive shelters due to a growing workload and limited information on how long it takes to examine shelter cases. IRS's understanding of how many staff will be needed to address the problem over what period will continue to evolve as it gains a better understanding of the problem's scope.

**Shift in Examination Resources Allocated to Abusive Tax Shelters**



Source: IRS.

Note: Fiscal year 2002 full-time equivalents include actual time spent on the entire returns containing shelters, not on the shelter issues alone. Fiscal year 2003 and 2004 full-time equivalents are planned amounts that are focused more on the shelter issues themselves.