



Highlights of [GAO-07-563](#), a report to the Ranking Minority Member, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

TAX COMPLIANCE

Thousands of Organizations Exempt from Federal Income Tax Owe Nearly \$1 Billion in Payroll and Other Taxes

Why GAO Did This Study

As of September 2006, nearly 1.8 million entities were recognized as tax exempt organizations by the Internal Revenue Service (IRS). As such, they do not have to pay federal income taxes. Exempt organizations are still required to remit amounts withheld from employees' wages for federal income tax, Social Security and Medicare, as well as other taxes.

Previous GAO work identified numerous government contractors, Medicare providers, and charities participating in the Combined Federal Campaign (CFC) with billions in unpaid federal taxes. To follow up on the CFC work, the subcommittee requested that GAO determine whether and to what extent (1) exempt organizations have unpaid federal taxes, including payroll taxes; (2) selected case study organizations and their executives are involved in abusive or potentially criminal activity; and (3) exempt organizations with unpaid federal taxes received direct grants from certain federal agencies.

GAO reviewed unpaid taxes and exempt organization data from IRS and selected 25 case studies for audit and investigation. GAO also reviewed data from 3 major grant disbursement systems. GAO referred all 25 cases to IRS for collection activity and criminal investigation, if warranted. In its oral comments on a draft of this report, IRS noted several actions it is taking to enhance exempt organizations' tax compliance.

www.gao.gov/cgi-bin/getrpt?GAO-07-563.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-9505 or kutzg@gao.gov.

What GAO Found

Nearly 55,000 exempt organizations had almost \$1 billion in unpaid federal taxes as of September 30, 2006. About 1,500 of these entities each had over \$100,000 in federal tax debts with some owing tens of millions of dollars. The majority of this debt represented payroll taxes and associated penalties and interest dating as far back as the early 1980s. Willful failure to remit payroll taxes is a felony under U.S. tax law. The \$1 billion figure is understated because some exempt organizations have understated tax liabilities or did not file tax returns.

GAO selected 25 exempt organizations for investigation based primarily on amount of tax debt and number of periods delinquent. For the 25 cases investigated GAO found abusive and potentially criminal activity, including repeated failure to remit payroll taxes withheld from employees. Officials diverted the money to fund their operations, including paying themselves large salaries ranging from hundreds of thousands of dollars to over \$1 million. Many of the 25 case studies accumulated substantial assets, such as million-dollar homes and luxury vehicles. Key officials and employees at 4 exempt organizations were engaged in criminal activities, including attempted bribery of an IRS official and illegal gambling. Despite repeatedly abusing the federal tax system, these entities continued to retain their exempt status. IRS does not have the authority to revoke an organization's exempt status because of unpaid federal taxes.

Examples of Abusive and Potentially Criminal Activity by Exempt Organizations

Type of organization	Tax debt	Organization activity
Health care	Nearly \$30 million	<ul style="list-style-type: none"> Officials are related to several other for-profit entities, all with unpaid federal taxes. Paid millions in management fees to a related entity. Received millions in federal payments.
Industry association	Over \$6 million	<ul style="list-style-type: none"> Paid over 10 key officials salaries in excess of \$100,000 instead of paying payroll taxes. One official built a multimillion-dollar home and purchased luxury vehicles at the same time the exempt organization failed to pay payroll taxes.
Group home/ educational institution	Almost \$8 million	<ul style="list-style-type: none"> An official admitted to funding operations, including executive salaries, instead of paying taxes. Operations included large compensation packages to organization officials.

Source: GAO analysis of IRS data and available public records.

Over 1,200 of these exempt organizations with unpaid federal taxes received over \$14 billion in federal grants in fiscal years 2005 and 2006. Six of the 25 exempt organizations GAO investigated received grants; of those 6 entities, 5 appear to have violated the False Statement Act by not disclosing their tax debt as required. For example, one entity that received millions of dollars in grants did not disclose unpaid taxes on multiple applications. Taxpayer privacy statutes prevent granting agencies from verifying an applicant's tax status with IRS unless the taxpayer authorizes such disclosure.