TAX EQUITY

Enhanced Evaluation Could Improve Outreach to Small Business Owners

Why GAO Did This Study

The COVID-19 pandemic has resulted in significant turmoil in the U.S. economy. Congress enacted tax provisions in pandemic relief efforts to support businesses. However, little is known about the effects of these tax policies by demographic backgrounds of business owners.

The CARES Act includes a provision for GAO to report on its ongoing COVID-19 monitoring and oversight efforts. GAO was also asked to review the effects of selected tax policies on small businesses by race, ethnicity, and sex as part of this oversight.

This report, among other things, estimates use of selected COVID-19 tax provisions by race, ethnicity, and sex of small business owners. It also evaluates potential barriers in accessing COVID-19 tax provisions among small businesses.

GAO analyzed data from IRS, the U.S. Census Bureau, and the Social Security Administration; reviewed literature on analytical methods; and interviewed representatives of small business organizations and agency officials.

What GAO Found

The Internal Revenue Service (IRS) does not collect data on taxpayers, including small business owners, regarding their race, ethnicity, or sex. This makes it difficult to determine if tax provision use varies by demographic group. In the absence of these data, GAO used data from other federal agencies, other taxpayer information, and specific analytical methods to help identify or estimate taxpayers’ respective demographic characteristics.

GAO analyzed the use of COVID-19 tax provisions—specifically, paid sick and family leave credits and payroll tax deferrals for employers and the self-employed, as well as the Employee Retention Credit—among a study population of single-owner businesses in tax year 2020. GAO matched data from different agencies to identify the recorded sex of business owners and estimated race and ethnicity of selected taxpayers using an imputation method. This method calculates the probability that a person with a given surname and residential location will identify with selected racial and ethnic groups.

GAO found limited use of the tax provisions by small businesses. Less than 7 percent of eligible small businesses within the study population used the employer and self-employed leave credits or payroll tax deferrals. GAO also found some estimated differential use by demographics of business ownership within the study population. For example,

- **Self-employed leave credits.** GAO estimated that eligible Black or African American- and Hispanic-owned businesses were more likely to use these credits compared to Asian- and White-owned businesses.

- **Employee Retention Credit.** GAO found that a slightly higher percentage of female-owned and Asian-owned businesses used this credit compared to other businesses filing employment tax returns.

Almost all of the small business organizations GAO interviewed identified a poor understanding of the tax provisions as a potential cause of the limited use, particularly among very small businesses. GAO’s analysis also identified information and recordkeeping requirements as a potential barrier contributing to limited use. IRS provided information to small businesses on the provisions and used some measures to evaluate its outreach, such as informal feedback and compliance data. However, GAO determined that these measures did not provide relevant and complete information.

A January 2021 Executive Order on advancing racial equity directed agencies to assess their programs and policies to determine if they perpetuate systemic inequalities among groups. Further, the Department of the Treasury’s strategic plan includes equity goals involving outreach and education to underserved communities. Enhanced evaluation of ongoing outreach efforts could help IRS develop information useful to groups with different needs, including very small businesses and owners from various demographic backgrounds. While the period of eligibility has passed for these COVID-19 provisions, evaluating outreach could also enhance IRS preparation for communicating tax relief information in future emergencies.

View GAO-22-104582. For more information, contact Jessica Lucas-Judy at (202) 512-6806 or lucasjudyj@gao.gov.