GAO Highlights

Highlights of GAO-08-1034T, a testimony before the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate

July 29, 2008

TAX COMPLIANCE

Businesses Owe Billions in Federal Payroll Taxes

What GAO Found

IRS records show that, as of September 30, 2007, over 1.6 million businesses owed over $58 billion in unpaid federal payroll taxes, including interest and penalties. Some of these businesses took advantage of the existing tax enforcement and administration system to avoid fulfilling or paying federal tax obligations—thus abusing the federal tax system. Over a quarter of payroll taxes are owed by businesses with more than 3 years (12 tax quarters) of unpaid payroll taxes. Some of these business owners repeatedly accumulated tax debt from multiple businesses. For example, IRS found over 1,500 individuals to be responsible for non-payment of payroll taxes at three or more businesses, and 18 were responsible for not remitting payroll taxes for a dozen different businesses.

Although IRS has powerful tools at its disposal to prevent the further accumulation of unpaid payroll taxes and to collect the taxes that are owed, IRS's current approach does not provide for their full, effective use. IRS's overall approach to collection focuses primarily on gaining voluntary compliance—even for egregious payroll tax offenders—a practice that can result in minimal or no actual collections for these offenders. Additionally, IRS has not always promptly filed liens against businesses to protect the government's interests and has not always taken timely action to hold responsible parties personally liable for unpaid payroll taxes.

GAO selected 50 businesses with payroll tax debt as case studies and found extensive evidence of abuse and potential criminal activity in relation to the federal tax system. The business owners or officers in our case studies diverted payroll tax funds for their own benefit or to help fund business operations.

Examples of Tax-Related Abusive and Potentially Criminal Activity

<table>
<thead>
<tr>
<th>Business</th>
<th>Unpaid payroll taxes</th>
<th>Activity</th>
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<tbody>
<tr>
<td>Construction</td>
<td>Almost $2.5 million over 12 years</td>
<td>Potential illegal check kiting and money laundering</td>
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<tr>
<td>Health care</td>
<td>Almost $2.5 million over 7 years</td>
<td>Officers took large cash withdrawals prior to filing bankruptcy multiple times</td>
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<td>Dentist</td>
<td>Over $500,000 over 10 years</td>
<td>Owner owed over $500,000 in personal taxes, put property in spouse's name, and sold property to children for less than market value</td>
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Sources: GAO analysis of IRS, public, and other records.

What GAO Recommends

In our report (GAO-08-617) being released today, GAO makes six recommendations to IRS to address issues identified in this report, including development of (1) processes and performance measures to monitor collection actions against egregious payroll tax offenders and (2) procedures to timely file tax liens and assess penalties to hold responsible business owners and officers personally liable for not remitting withheld payroll taxes. IRS agreed to all six of our recommendations.

To view the full product, including the scope and methodology, click on GAO-08-1034T. For more information, contact Steven J. Sebastian at (202) 512-3406 or sebastians@gao.gov.