



## Treasury Inspector General for Tax Administration Office of Audit

### TARGETED COMPLIANCE EFFORTS MAY REDUCE THE NUMBER OF INACCURATE INFORMATION RETURNS SUBMITTED BY GOVERNMENT ENTITIES

Issued on February 15, 2011

## Highlights

Highlights of Report Number: 2011-30-019 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

### IMPACT ON TAXPAYERS

The hundreds of thousands of information returns with inaccurate names and taxpayer identification numbers that are submitted annually by government entities create opportunities for individuals to underreport income and avoid the scrutiny of the Internal Revenue Service (IRS). Those individuals that take advantage of such opportunities can create unfair burdens on honest taxpayers and diminish the public's respect for the tax system.

### WHY TIGTA DID THE AUDIT

This audit was initiated to determine the extent that government entities (Federal, State, and local) are submitting accurate information returns and whether additional steps may be needed to further enhance compliance with the reporting requirements. Accurate information reporting is central to the success of the Nation's voluntary tax system and may become even more critical after December 31, 2011, when current law requires payments by government entities for goods or services to be subject to a 3 percent income tax withholding.

### WHAT TIGTA FOUND

Government entities are more compliant in submitting information returns to the IRS with valid names and taxpayer identification numbers than the general population. Nevertheless, the IRS could not determine if \$10.2 billion of income, \$300.2 million of deductions, and \$12.6 million of tax withholdings were properly reported in Tax Year 2007 because of inaccurate information returns submitted by government entities.

Our analysis of 794,140 inaccurate information returns found a relatively small number of government entities (75 of 85,139) were responsible for nearly one-half (48 percent) of the inaccuracies. In addition, the vast

majority (86 percent) of the inaccuracies were limited to five types of information returns.

TIGTA recognizes it will be very difficult, if not impossible, to ensure every information return submitted contains an accurate name and taxpayer identification number. However, focusing the IRS's efforts on the small number of government entities that submit the largest portion of inaccurate information returns has the potential to deliver other benefits. Specifically, it would likely provide the IRS with additional information returns for computer matching compliance programs. This, in turn, may provide the IRS with opportunities to increase tax revenues by detecting and pursuing additional individuals who underreport income.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS expand the criteria used to select government entities for compliance activities to include the volume of information returns submitted with inaccurate names and/or taxpayer identification numbers. TIGTA also recommended that compliance activities for entities selected based on the volume of inaccurate returns not be closed until IRS personnel assess the reasons for the inaccuracies and determine any corrective actions that should be taken. To help ensure any corrective actions can be evaluated during subsequent compliance activities, the results of these assessments should be thoroughly documented within the compliance case files.

In their response to the report, IRS officials agreed with the recommendations and stated the corrective actions have been taken.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2011reports/201130019fr.pdf>

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