



FINANCIAL MANAGEMENT

Thousands of GSA Contractors Abuse the Federal Tax System

Highlights of [GAO-06-492T](#), a testimony before the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

In February 2004 and again in June 2005, GAO testified that some Department of Defense (DOD) and civilian agency federal contractors abused the federal tax system with little consequence. Previous problems we identified with contractors with unpaid taxes have led to concerns over whether any interagency contractors, such as those on the General Services Administration's (GSA) federal supply schedule, failed to pay their taxes. GSA, through its federal supply schedule and other interagency contracts, arranges for federal agencies to purchase billions of dollars of goods and services directly from private vendors. GAO was asked to determine if GSA contractors, including both contractors that were paid by GSA and GSA interagency contractors, have unpaid federal taxes, and if so, to (1) determine the magnitude of tax debts owed by GSA contractors; (2) identify examples of GSA contractors that have tax debts and are also engaged in potentially abusive, fraudulent, or criminal activities; and (3) determine whether GSA screens contractors for tax debts and criminal activities prior to awarding contracts and at the exercise of any government contract options.

www.gao.gov/cgi-bin/getrpt?GAO-06-492T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-7455 or Steve Sebastian at (202) 512-3406.

What GAO Found

Over 3,800 GSA contractors had tax debts totaling about \$1.4 billion as of June 30, 2005. This represented approximately 10 percent of the number of GSA contractors during fiscal year 2004 and the first 9 months of fiscal year 2005.

GAO investigated 25 GSA contractors with abusive and potentially criminal activity. These businesses had not forwarded payroll taxes withheld from their employees and other taxes to IRS. Willful failure to remit payroll taxes is a felony under U.S. law. Furthermore, some company owners diverted payroll taxes for personal gain or to fund their businesses. These contractors worked for a number of federal agencies including the departments of Defense, Justice, and Homeland Security.

A number of owners or officers of the 25 GSA contractors have significant personal assets, including commercial properties, houses worth over \$1 million, and luxury vehicles. In addition, several of the owners of these GSA contractors gambled hundreds of thousands of dollars at the same time they were not paying the taxes that their businesses owed.

Examples of Abusive and Potentially Criminal Activity

Type of Business	Unpaid tax debt	Payments to contractor	Contractor activity
Emergency supplies	Over \$700,000	Up to \$100,000	Company loaned hundreds of thousands of dollars to company officer at same time company was not paying its taxes.
Security services	Over \$9 million	At least \$1 million	Company owner made cash withdrawals to fund an unrelated business and purchase a men's gold bracelet worth over \$25,000.
Security services	Nearly \$2 million	At least \$1 million	Company repeatedly underpaid taxes to fund business while company owner reported personal income of nearly \$1 million

Source: GAO's analysis of IRS, FMS, GSA, public, and other records.

Neither federal law, as implemented by the Federal Acquisition Regulation (FAR), nor GSA policies require contracting officers to specifically consider tax debts in making contracting decisions either at initial award or when considering options to extend. In addition, federal law generally prohibits the disclosure of taxpayer data, and consequently contracting officers have no access to tax data directly from the IRS. GSA contractors that do not pay tax debts could have an unfair competitive advantage in costs because they may have lower costs than tax compliant contractors on government contracts. This is especially true in wage-based businesses that provide homogenous types of goods and services. GAO's investigation identified instances in which contractors with tax debts won awards based on price differential over tax compliant competing contractors.