



Highlights of [GAO-08-31](#), a report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

Since February 2004, GAO has reported that weaknesses in the federal programs and controls that allowed thousands of federal contractors, tax exempt entities, and Medicare providers to receive government money while owing taxes. GAO was asked to determine if these problems exist for entities who receive federal grants or direct assistance and (1) describe the magnitude of taxes owed, (2) provide examples of grant recipients involved in abusive and potentially criminal activity, and (3) assess efforts to prevent delinquent taxpayers from participating in such programs.

To perform this work, GAO analyzed data from the Internal Revenue Service (IRS), three of the largest grant and direct assistance payment systems, representing over \$460 billion in payments in fiscal years 2005 and 2006, and the Housing and Urban Development (HUD) Section 8 tenant-based housing program. GAO investigated 20 cases to provide examples of grant recipients involved in abusive activity.

## What GAO Recommends

GAO recommends that the Office of Management and Budget (OMB) assess the need to require federal agencies to conduct inquiries into the tax debt status of applicants where appropriate. GAO also recommends IRS evaluate the 20 referred cases with high tax debts and abusive and potential criminal activity for appropriate additional collection and investigation action. IRS and OMB agreed with our recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-31](#). For more information, contact Greg Kutz at (202) 512-6722 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

## TAX COMPLIANCE

### Federal Grant and Direct Assistance Recipients Who Abuse the Federal Tax System

#### What GAO Found

While most recipients of payments federal grant and direct assistance programs pay their federal taxes, tens of thousands of recipients collectively owed \$790 million in federal taxes as of September 30, 2006. This included over 2,000 individuals and organizations that received \$124 billion of payments directly from the federal government and who owed more than \$270 million of unpaid taxes (almost 6 percent of such recipients) and about 37,000 landlords participating in HUD's Section 8 tenant-based housing program who owed an estimated \$520 million of unpaid taxes (almost 4 percent of such landlords). The \$790 million estimate is likely substantially understated because GAO's analysis excluded the 80 percent of federal grants that are directly given to state and local governments which, in turn, disburse the grants to the ultimate recipients.

GAO selected 20 grant and direct assistance recipients with high tax debt for a more in-depth investigation of the extent and nature of abuse and criminal activity. For all 20 cases GAO found abusive and potential criminal activity related to the federal tax system, including failure to remit individual income taxes and/or payroll taxes to IRS. Rather than fulfill their role as "trustees" of payroll tax money and forward it to IRS, these grant recipients diverted the money for other purposes. Willful failure to remit payroll taxes is a felony under U.S. law. Individuals associated with some of these recipients diverted the payroll tax money for their own benefit or to help fund their businesses. GAO referred these 20 cases to IRS for additional collection and investigation action, as appropriate.

#### Examples of Abusive and Potentially Criminal Activity by Grant and Direct Assistance Recipients

| Nature of work  | Unpaid tax amount as of September 2006 | Activity   |
|-----------------|--|--|
| Housing         | Over \$3 million                       | Landlord was convicted of illegally transferring property to defraud creditors.  |
| Social Services | Over \$1 million                       | While failing to pay its taxes, the grant recipient paid hundreds of thousand of dollars to a relative for services contracts. |
| Social Services | Over \$400,000                         | Recipient investigated for using grant funds to purchase luxury car, lakefront condominium, and Caribbean trips.               |

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

Federal law and current governmentwide policies do not prohibit individuals and organizations with unpaid taxes from receiving grants or direct assistance. Several federal agencies established policies against awarding grants to tax delinquent applicants; however, federal agencies do not verify applicants' certification that they do not owe taxes. Further, federal law generally prohibits the disclosure of taxpayer data to federal agencies. Eleven grant recipients that GAO investigated appeared to have made false statements by not disclosing their tax debt as required. Further, agencies that award grants are not required to inquire as to recipients' tax debt status prior to providing direct assistance payments.