IRS Not Addressing Billions in Underreported Employment Taxes

Cross References

- TIGTA Ref. No. 2017-40-038, July 26, 2017

A recent report issued by the Treasury Inspector General for Tax Administration (TIGTA) stated that the IRS case selection processes result in billions of dollars in potential employer underreported tax not being addressed.

The Combined Annual Wage Reporting (CAWR) Program compares the employee wage and withholding information reported to the IRS on employment tax forms to withholding documents filed with the Social Security Administration. The purpose of the IRS-CAWR Program is to ensure that employers report the proper amount of employment taxes and Federal income tax withholding on their employment tax returns.

The TIGTA conducted an audit to evaluate whether the IRS-CAWR Program's document matching process accurately identified and selected the most productive cases. This audit concluded that billions of dollars of potential employer underreported taxes are not being addressed because most discrepancy cases are not worked by IRS employees. Analysis of 137,272 discrepancy cases for tax year 2013 found that the IRS worked only 23,184 cases (17%). The remaining 114,088 (83%) discrepancy cases that were not worked had a potential underreported tax difference of more than $7 billion.

In addition, discrepancy case selection processes do not ensure that priority is given to working discrepancy cases with the highest potential tax assessment. TIGTA analyzed the 114,088 discrepancy cases that were not worked to identify those 23,184 with the highest potential underreported tax amounts by case type. It turned out that these had total potential underreported tax of more than $6.8 billion.

Further, TIGTA's analysis of the 114,088 unworked discrepancy cases showed that if the IRS had selected the 23,184 auto-generated cases with a higher average assessment potential to work, it would have selected cases with more than $128 million in assessment potential. In addition to changing its selection methodology to work case types with the highest potential tax assessment, the IRS could further increase its return on investment by including prior year discrepancy cases for the same employer. TIGTA's analysis found that 3,137 of the discrepancy cases for tax year 2013 also had discrepancy cases for tax year 2012, with potential underreported tax totaling more than $448 million for tax year 2012.

The TIGTA audit recommended that the IRS evaluate the current agreement and workload processes with the Social Security Administration to determine if changes could be made, revise its case selection criteria to include auto-generated cases with the highest potential tax assessment, coordinate with the Information Technology organization to review and prioritize programming enhancements, and take actions necessary to implement the proposed upgrade to include prior year discrepancy cases when current year discrepancy cases are selected for the same employer.

Author's Comment

Another way to solve this problem is for Congress to provide the IRS with enough funding to hire enough case workers to work on all discrepancy cases rather than only 17% of the discrepancy cases.