

Why GAO Did This Study

The COVID-19 pandemic resulted in significant challenges to the U.S. economy, leading to business closures. The employment tax relief measures Congress passed to help businesses affected by the pandemic were estimated to result in about \$237.8 billion in foregone revenue for fiscal years 2021-2031.

The CARES Act includes a provision for GAO to report on the federal government's response to the COVID-19 pandemic. This report describes IRS's efforts in implementing the employment tax provisions. The report also evaluates IRS's plans and actions to identify compliance risks for the provisions.

GAO reviewed federal laws and compared IRS's compliance plans and procedures with selected project management practices and with tax credit eligibility requirements. GAO analyzed IRS data from employment tax returns for 2020, including data on industry sector. GAO also interviewed IRS employees and officials.

What GAO Recommends

GAO is making five recommendations including that IRS develop a compliance plan consistent with project management principles, document compliance processes for adjusted returns and tax credits using restricted wages, and identify ineligible entities. IRS agreed with two of the recommendations and disagreed with three. IRS said its current processes are sufficient. GAO maintains that these recommendations remain warranted.

View [GAO-22-104280](#). For more information, contact Jessica Lucas-Judy, (202) 512-6806, lucasjudj@gao.gov or Cheryl E. Clark, (202) 512-3406, clarkce@gao.gov

COVID-19

IRS Implemented Tax Relief for Employers Quickly, but Could Strengthen Its Compliance Efforts

What GAO Found

Starting in March 2020, Congress passed several laws, including the CARES Act, to provide employers with tax relief in response to the economic burden brought on by the COVID-19 pandemic. Provisions in these laws established the paid sick and family leave credits (leave credits), the Employee Retention Credit (ERC), and payroll tax deferrals. IRS implemented these provisions while facing delays caused by facility closures and other challenges. As new laws were enacted, IRS continued to revise employment tax returns and guidance.

Leave credits and ERCs for 2020 totaled about \$20.7 billion. Payroll tax deferrals totaled about \$123.6 billion, as shown in the table. In addition, preliminary data indicate 2021 usage of leave credits and ERCs likely exceed 2020 usage.

Data on Leave Credits, Employee Retention Credits, and Payroll Tax Deferrals, 2020

Provision	Number of employers using	Dollars in billions
Leave credits	1,509,611	9.8
Employee Retention Credits	119,834	10.9
Payroll tax deferrals	1,026,282	123.6

Source: GAO analysis of Internal Revenue Service data. | [GAO-22-104280](#)

Note: The tax credit dollar figures are as reported by taxpayers and are subject to taxpayer reporting error. Data are from employment and income tax returns, as of December 2021 and January 2022.

Several of the top industry sectors claiming leave credits and ERCs were sectors most affected by the pandemic that GAO identified in previous work. For example, Manufacturing claimed the second highest amounts of leave credit dollars (about 13 percent) and the Accommodation and Food Services sector claimed the highest amount of ERC dollars (about 15 percent).

IRS took some steps to identify and plan for compliance risks associated with the leave credits and the ERC. As IRS continues to plan for examinations of both credits—which expired in 2021 but will be subject to examination for several years after filing—GAO found IRS could strengthen these efforts by expanding its use of selected project management practices. For example, IRS developed objectives but the objectives did not evolve to reflect statutory changes made after the CARES Act, are not measurable, and do not include criteria to measure success. A comprehensive and cohesive compliance plan would help guide IRS efforts to ensure that it adequately identifies and addresses compliance risks.

IRS began creating new processes to research and address compliance risks associated with tax credits claimed on adjusted returns and employers who claimed multiple credits with wages that are restricted from use for more than one type of credit. However, IRS has not documented how it developed those processes or how it would implement them in practice. Documentation increases transparency and can inform future compliance efforts.

In preliminary data, GAO found 337 filings, totaling \$100 million, from employers that were established in April 2020 or later, but then stopped filing employment tax returns. IRS screening filters flagged more than 65 percent of these filers for review. However, those controls may still overlook ineligible entities because they do not consider certain factors, such as refund amounts and employer establishment dates.