GAO Highlights

Highlights of GAO-19-491, a report to the Committee on Finance, U.S. Senate

Why GAO Did This Study

Abusive tax schemes contribute to the tax gap and threaten the tax system's integrity. When abusive tax schemes involve tax-exempt entities, they also can erode the public's confidence in the charitable sector.

GAO was asked to review what is known about abusive transactions involving tax-exempt entities and how IRS addresses them. This report, among other things, (1) describes ways in which taxpayers have abused an entity's tax-exempt status; (2) examines trends in IRS's compliance efforts; and (3) assesses how IRS identifies emerging abusive tax schemes involving tax-exempt entities.

GAO reviewed research on tax schemes involving tax-exempt entities, and interviewed relevant professionals and researchers about tax schemes involving tax-exempt entities; compiled statistics from IRS audit and disclosure data; and compared documentation and testimony from IRS officials on IRS programs and guidance from its operating divisions with certain internal control and GAO fraud framework criteria.

What GAO Recommends

GAO is making five recommendations to IRS to strengthen its internal controls, including that it link data across operating divisions, test the ability of a database to facilitate analysis of audit data, and use existing analytic tools to further mine information on tax forms. In commenting on a draft of this report, IRS agreed with all of GAO's recommendations.

View GAO-19-491. For more information, contact James R. McTigue, Jr. at (202) 512-9110 or mctiguej@gao.gov.

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TAX-LAW ENFORCEMENT

IRS Could Better Leverage Existing Data to Identify Abusive Schemes Involving Tax-Exempt Entities

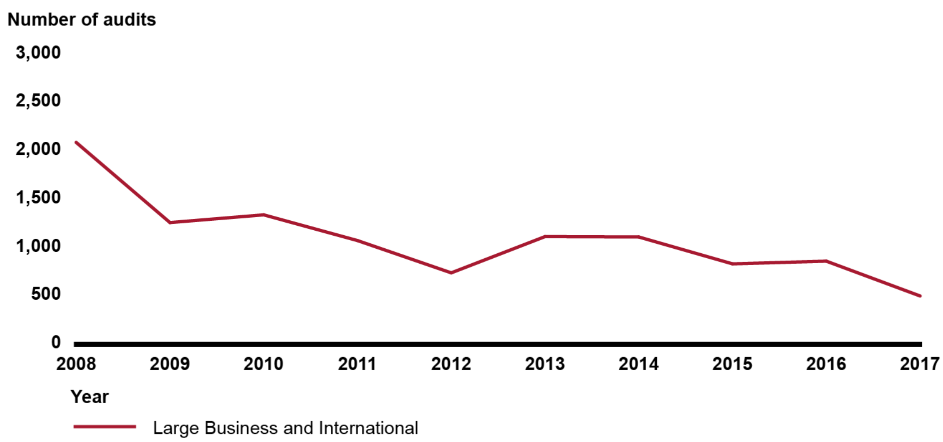
What GAO Found

Taxpayers have used a variety of abusive tax schemes involving tax-exempt entities. In some schemes, the tax-exempt entity is complicit in the scheme, while in others it is not. For example, an abusive tax scheme could involve multiple donors grossly overvaluing charitable contributions, where the tax-exempt entity is not part of the scheme. Conversely, some patient assistance programs—which can help patients obtain medical care or medications—have been used by pharmaceutical manufacturers to make charitable donations that can be viewed as furthering private interests.

Internal Revenue Service (IRS) audits of abusive tax schemes are trending downward, as the figure below shows audits by IRS's Large Business and International division. This trend has occurred amid generally declining IRS resources and corresponds with an overall decrease in audit activity by IRS over recent years.

IRS has a variety of programs working collectively to identify abusive tax schemes involving tax-exempt entities, but some internal control weaknesses exist in its approach. For example, GAO found three ways that IRS data or programs were inconsistent with internal control standards for using quality information. First, database project codes used for identifying data on abusive tax schemes are not linked across IRS's audit divisions and do not consistently identify whether a tax-exempt entity was involved. Second, IRS has not leveraged a database with cross-divisional information to facilitate its analysis and monitoring of audit data across divisions. Finally, IRS has not used existing analytic tools to mine the narrative fields of tax forms. Doing so could provide audit leads on abusive schemes involving tax-exempt entities. These deficiencies inhibit IRS's ability to identify abusive tax schemes and develop responses to those schemes.

Large Business and International Abusive Transaction Audits, Fiscal Years 2008 through 2017



Source: GAO analysis of Internal Revenue Service data. | GAO-19-491