Treasury Inspector General
for Tax Administration
Office of Audit

MOST UNPAID TAXES OF PARTICIPANTS IN THE TROUBLED ASSET RELIEF PROGRAM HAVE BEEN RESOLVED

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Highlights

Highlights of Report Number: 2010-30-050 to the Internal Revenue Service Commissioners for the Large and Mid-Size Business Division and Small Business/Self Employed Division.

IMPACT ON TAXPAYERS

The Troubled Asset Relief Program is a large expenditure of public funds that required participants to indicate in agreements with the United States Department of the Treasury that all material Federal taxes were paid. However, the fact that some participants had unpaid taxes when the agreements were executed could jeopardize the public's confidence and trust in the performance and accountability of our Federal Government.

WHY TIGTA DID THE AUDIT

This audit was initiated because of concerns raised over the unpaid taxes of some participants in the Troubled Asset Relief Program. The audit objectives included determining 1) the amount and type of Federal tax debt owed by participants, 2) whether participants with unpaid Federal taxes were engaged in abusive tax activities, and 3) the actions underway to enforce compliance or pursue collection of unpaid taxes from the participants.

WHAT TIGTA FOUND

Internal Revenue Service (IRS) records showed 130 of the 558 institutions included in this audit had unpaid taxes totaling $530.8 million when agreements were signed by the Department of the Treasury's Assistant Secretary for Financial Stability and the institutions' representatives. However, IRS records also showed that 97 percent of the unpaid taxes were resolved by December 2009.

In considering the significance of the unpaid taxes, it is important to recognize that when the agreements were signed, the Department of the Treasury was in the beginning stages of establishing the Troubled Asset Relief Program to address the serious economic conditions threatening the stability of our nation's financial system. As a result, the focus on stabilizing the financial system may have taken priority over establishing the controls needed to identify unpaid taxes so that the impact of the liabilities could be evaluated. Currently, IRS officials are collaborating across functional areas and adapting traditional collection processes to accelerate the identification and resolution of unpaid taxes.

It is equally important to add perspective on the amount of unpaid taxes. According to IRS records, the 5 publicly traded institutions that received the most Troubled Asset Relief Program funds (of the institutions included in this audit) voluntarily paid $16 billion of corporate income and employment tax liabilities during the time their accounts contained $227 million of unpaid taxes. Records also showed that, as of their respective agreement execution dates, their accounts contained nearly $17 billion of credits.

In coming years, there are at least two factors that will require monitoring the tax accounts of participants. The first factor involves net operating losses that IRS officials expect many participants will be claiming for Tax Years 2008 and 2009. The second factor is the ongoing income tax audits of some participants, including eight involved in tax avoidance transactions.

WHAT TIGTA RECOMMENDED

Although TIGTA made no recommendations in this report, IRS officials were provided an opportunity to review the draft report. IRS management did not provide any report comments.

READ THE FULL REPORT

To view the report, including the scope, methodology, go to:

http://www.treas.gov/tigta/auditreports/2010reports/201030050fr.pdf.

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