



*A Statistical Portrayal of Federally  
Recognized Indian Tribal Governments'  
Tax Filing Characteristics for  
Tax Years 2000 Through 2004*

**March 14, 2007**

**Reference Number: 2007-10-007**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

**Redaction Legend:**

1 = Tax Return/Return Information

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TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

March 14, 2007

**MEMORANDUM FOR** COMMISSIONER, TAX EXEMPT AND GOVERNMENT ENTITIES  
DIVISION

**FROM:** *Michael R. Phillips*  
Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – A Statistical Portrayal of Federally Recognized  
Indian Tribal Governments' Tax Filing Characteristics for  
Tax Years 2000 Through 2004 (Audit # 200610043)

This report presents the results of our review of the Indian Tribal Governments (ITG) office customers' tax filing activities. The overall objectives of this audit were to review relevant data for the ITG office customer base tax filing activities for Tax Years 2000 through 2004 and analyze the data for trends.

*Impact on the Taxpayer*

Tribal economies, stimulated largely by gaming,<sup>1</sup> have experienced dynamic growth and represent one of the fastest growing segments of the United States economy. Analysis of the tax data for Tax Years 2000 through 2004 shows that, as overall income reported by tribal entities<sup>2</sup> increased, tax dollars reported and the associated tax revenues to the Federal Government also increased. Additionally, tribal entities have generally fully paid their reported tax obligations.

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<sup>1</sup> There are three classes of gaming. Class I consists of social games for prizes of nominal value, Class II consists of games such as bingo or lotto, and Class III consists of card games, dog and horse racing, and all other types of casino gaming.

<sup>2</sup> "Tribal entities" refers to the businesses owned by the Indian tribal government for which there is a Taxpayer Identification Number established with the IRS. "Tribes" refers to the general governmental entity and its collective business entities.



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## Synopsis

Some Indian tribes have become more economically self-sufficient by entering into a variety of enterprises. Many tribes with gaming enterprises, such as casinos and bingo halls, have experienced dynamic growth, which has resulted in significant increases in revenues reported, number of employees hired, compensation paid, and taxes reported. This growth has encouraged more tribes to enter the gaming industry. Currently, 27 percent of the tribes have casino operations.

As overall income reported by tribal entities increased, tax dollars reported and the associated tax revenues to the Federal Government also increased. Although the tribes generally do not report or pay Federal income taxes,<sup>3</sup> tribal entities are required to file employment and excise tax returns and pay any associated taxes. The ITG office customers are more diligent in paying their tax obligations than the general Internal Revenue Service (IRS) taxpayer population. For example, Tax Year 2001 statistics show ITG office customers paid 99 percent of the amounts originally reported as owed, while all IRS customers paid approximately 84 percent of what was reported as owed.

## Response

We made no recommendations in this report. However, key IRS management officials reviewed it prior to issuance and agreed with the facts and conclusions presented.

Copies of this report are also being sent to the IRS managers affected by the report conclusions. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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<sup>3</sup> Tribal entities (not tribes) organized as State-chartered corporations are required to report income and pay Federal income tax. Tribal entities organized as partnerships report their income to the IRS but do not pay Federal income tax. Any associated Federal income tax is the responsibility of the partners.



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*Abbreviations*

FUTA	Federal Unemployment Tax Act
IRS	Internal Revenue Service
ITG	Indian Tribal Governments
TY	Tax Year



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## *Background*

The Indian Tribal Governments (ITG) office administers Federal tax laws for the 564 Federally recognized Indian tribes and their approximately 2,100 related tribal entities.<sup>1</sup> In addition, the ITG office must ensure the Internal Revenue Service (IRS) complies with the treaty provisions that establish rights of tribal governments (tribes) and Executive Order 13175 (dated November 6, 2000),<sup>2</sup> which outlines the Government-to-Government relationships.

Some tribal economies, stimulated largely by gaming,<sup>3</sup> have recently experienced dynamic growth and represent one of the fastest growing segments of the United States (U.S.) economy. Tribes without gaming continue to rely on traditional sources of income, such as agriculture and fishing revenues, and have markedly different tax filing and payment characteristics from those with gaming enterprises.

Generally, Federally recognized tribes are sovereign governments and are not required to report income or pay Federal income tax. However, tribal entities are responsible for filing employment and excise tax returns and paying any associated taxes where applicable. Tribal entities (not tribes) organized as State-chartered corporations are required to report income and pay Federal income tax. Tribal entities organized as partnerships report their income to the IRS but do not pay Federal income tax. Any associated Federal income tax is the responsibility of the partners. Appendix IV contains a list of tax forms that tribal entities can use to report their tax obligations.

The ITG office divided its customer base into 3 market segments: tribes with Gaming (226 tribes and 1,246 entities), tribes without Gaming (Non-Gaming) (238 tribes and 372 entities), and tribes located in Alaska (227 tribes and 264 entities).<sup>4</sup> Tribes located in Alaska

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<sup>1</sup> "Tribal entities" refers to the businesses owned by the Indian tribal government for which there is a Taxpayer Identification Number established with the Internal Revenue Service. "Tribes" refers to the general governmental entity and its collective business entities.

<sup>2</sup> Consultation and Coordination With Indian Tribal Governments, Exec. Order No. 13175, 3 C.F.R. 304 (2001), reprinted in 25 U.S.C. Section (§) 450 (2001).

<sup>3</sup> There are three classes of gaming. Class I consists of social games for prizes of nominal value, Class II consists of games such as bingo or lotto, and Class III consists of card games, dog and horse racing, and all other types of casino gaming.

<sup>4</sup> The ITG office treats some subdivisions of tribal governments as separate tribes because they are decentralized and do their own tax filings. Therefore, the total number of tribes presented (691) is greater than the total number of Federally recognized tribes (564). Additionally, the total number of tribal entities presented for the market segments (1,882) consists of the entities that are currently used by the tribal government or are pending use in the near future. The number of tribal entities related to the Federally recognized tribes (approximately 2,100) includes all tribal entities regardless of whether they have any current filing requirements or past filing history.



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are generally smaller and have different filing characteristics from tribes in the Gaming and Non-Gaming market segments.

This review was performed at the ITG National Headquarters office in Washington, D.C., and the Compliance and Program Management office in Buffalo, New York, during the period October through November 2006. The dollar amounts presented in this report are the amounts reported by the tribal entities on their tax returns and have not been verified by the IRS. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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## *Results of Review*

Some Indian tribes have become more economically self-sufficient by entering into a variety of enterprises including casinos, gasoline stations, smoke shops, restaurants, and banks. Many tribes with gaming enterprises, such as casinos and bingo halls, have experienced dynamic growth, which has resulted in significant increases for tribal entities in revenues reported, number of employees hired, compensation paid, and taxes reported. This growth has encouraged more tribes to enter the gaming industry. Currently, 27 percent of the tribes have casino operations.

Although some tribes have experienced dynamic growth, the amount of tax reported annually by all tribal entities is a small percentage of the tax paid by all of the IRS' business taxpayers.<sup>5</sup> For Tax Years (TY) 2000 through 2002,<sup>6</sup> the IRS reported an average business tax paid of more than \$441.4 billion, compared to an average tax reported for the tribal entities of more than \$1.8 billion. The tax reported by the tribal entities increased over these 3 tax years, from .27 percent to .51 percent of the total.

Analyses of the tax data for TYs 2000 through 2004 provide several indications of the growth in the ITG office customer base. Gaming operations had the greatest economic impact on the tribal entities and, as overall income reported by tribal entities increased, tax dollars reported and the associated tax revenues to the Federal Government also increased. Details of our analyses of the ITG office customers' data for TYs 2000 through 2004 are presented below.

### **Analysis of market segments**

The ITG office divided its customer base into three market segments to learn more about the demographic and tax-filing characteristics that are unique to the respective market segment: tribes with gaming (Gaming), tribes without gaming (Non-Gaming), and tribes located in Alaska (Alaska).

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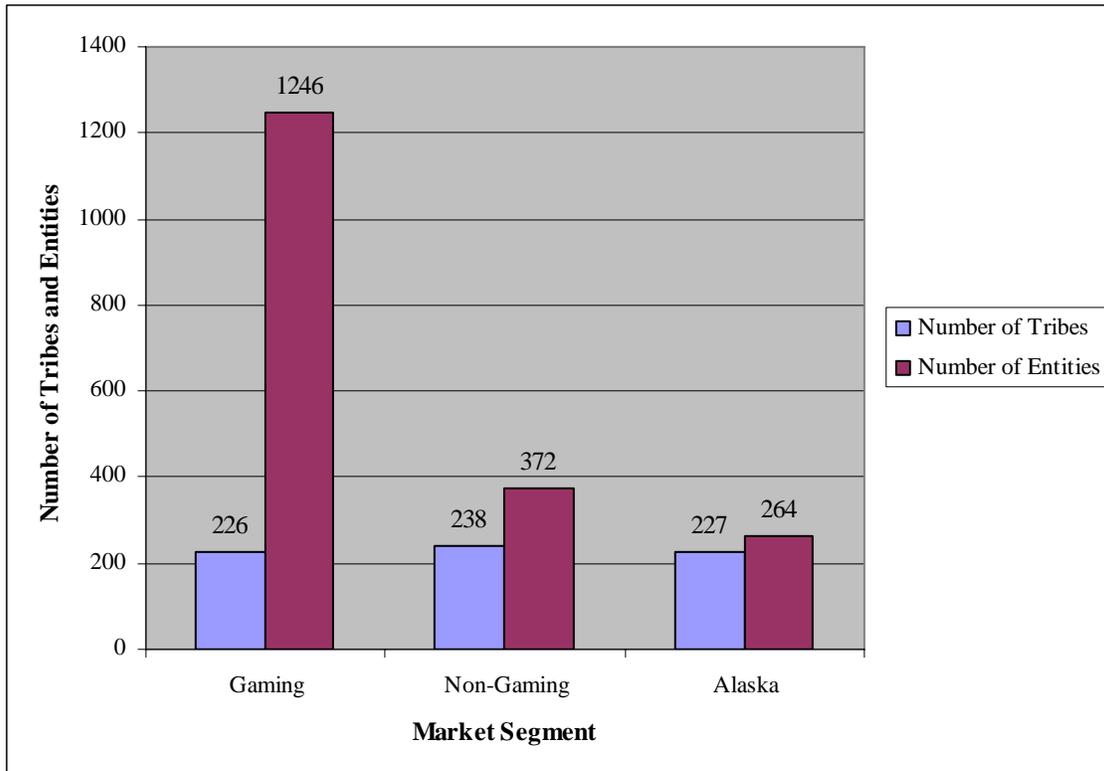
<sup>5</sup> "Tax reported" is the amount shown as due on a tax return, and "tax paid" is the amount submitted by the taxpayer. Generally, the tribal entities paid the amount reported on their tax returns.

<sup>6</sup> Tax data from the IRS Statistics of Income Division were not available for TYs 2003 and 2004.



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**Figure 1: Number of Tribes and Related Entities in the ITG Office Market Segments**



Source: *Analysis of the ITG Database.*<sup>7</sup>

Figure 1 shows the Gaming market segment has the most entities (66 percent). The Gaming market segment includes businesses that conduct gaming (e.g., casinos) and other business enterprises such as restaurants or gasoline stations, some of which are close to the gaming sites. The income generated from the gaming operations provides additional opportunities for economic development.

<sup>7</sup> The ITG office developed the ITG Database over the past several years. The ITG Database is made up in part by the Inventory Database, the Outreach Assignment Database, and the Tribal Compliance Database and contains data from the IRS' main database (Master File), the Bureau of Indian Affairs, and other sources on Indian tribal governments and their related enterprises. The ITG Database records contain more than 200 data fields and include information such as tribal entity data, filing requirements, and line-item information from filed returns such as wages paid. The Master File is the IRS database that stores various types of taxpayer account information, including individual, business, and employee plans and exempt organizations data.



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**Account balance analysis**

Overall, for TYs 2000 through 2004, most of the tribal entities in the ITG office customer base fully paid their taxes and do not have a balance due on tax returns filed.<sup>8</sup> Figure 2 shows the percentage of tax returns filed that have no balance due on the account (i.e., they are fully paid).

**Figure 2: Percentage of Tax Returns Filed for Which Account Balances Are Fully Paid (TYs 2000 - 2004)**

Market Segment	Tax Year					Overall Totals
	2000	2001	2002	2003	2004	
<b>Gaming</b>	99.2%	99.1%	98.7%	97.8%	92.6%	97.9%
<b>Non-Gaming</b>	98.1%	97.9%	97.8%	96.5%	87.2%	96.3%
<b>Alaska</b>	97.1%	97.4%	96.3%	96.2%	87.1%	95.5%
<b>Overall</b>	98.8%	98.7%	98.2%	97.4%	91.0%	97.3%

*Source: Analysis of IRS Master File information.*

Figure 2 shows more than 97 percent of all tax returns filed do not have an account balance because taxes were either fully paid by the tribal entities or there was no liability. However, this percentage declined each year, from almost 99 percent in TY 2000 to 91 percent in TY 2004.

Figure 3 compares the total tax dollars reported on accounts that were fully paid to the total tax dollars reported for all accounts, including those that were fully paid or those that have a balance due.

**Figure 3: Percentage of Tax Dollars Paid for Accounts With No Account Balance Compared to Total Taxes Reported (TYs 2000 - 2004)**

Market Segment	Tax Year					Overall Totals
	2000	2001	2002	2003	2004	
<b>Gaming</b>	99.9%	99.3%	97.7%	81.1%	78.9%	89.6%
<b>Non-Gaming</b>	96.4%	99.7%	99.5%	89.9%	80.7%	92.2%
<b>Alaska</b>	95.8%	96.9%	97.4%	97.8%	80.5%	93.2%
<b>Overall</b>	99.7%	99.3%	97.7%	81.6%	79.0%	89.7%

*Source: Analysis of IRS Master File information.*

Figure 3 shows that overall almost 90 percent of the tax dollars due by the ITG office customer base were paid either when the return was filed or by the time our analysis was completed (data

<sup>8</sup> For the purpose of this analysis, we did not take into consideration when payment was received on the account. An account that was fully paid at the time of our analysis (data were obtained through the end of Tax Year 2005) was treated as if the account had been fully paid when the return was filed.



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were obtained through the end of Tax Year 2005). The tax dollars fully paid declined from a high of almost 100 percent in TY 2000 to 79 percent in TY 2004. This decline is consistent with the percentage of tax returns presented in Figure 2 that were fully paid.

Tribal entities reported taxes totaling more than \$10.7 billion for TYs 2000 through 2004. The taxes reported more than doubled from TY 2000 to TY 2004. As seen in Figure 4, the Gaming market segment reported most of the taxes.

**Figure 4: Tax Dollars (in thousands) Reported by Market Segment (TYs 2000 - 2004)<sup>9</sup>**

Market Segment	Tax Year					Total Tax Reported
	2000	2001	2002	2003	2004	
<b>Gaming</b>	\$1,115,291	\$1,927,239	\$2,150,747	\$2,332,413	\$2,626,442	\$10,152,132
<b>Non-Gaming</b>	\$67,561	\$88,934	\$93,881	\$116,790	\$120,050	\$487,216
<b>Alaska</b>	\$11,776	\$17,344	\$18,470	\$19,593	\$20,899	\$88,083
<b>Totals</b>	\$1,194,629	\$2,033,517	\$2,263,097	\$2,468,796	\$2,767,391	\$10,727,430

Source: Analysis of IRS Master File information.

Figure 5 shows the number of associated tax returns filed by tribal entities increased from TY 2000 to TY 2001 but generally decreased each year thereafter. The Gaming market segment filed more than 68 percent of the tax returns filed for all 3 market segments.

**Figure 5: Number of Tax Returns Filed by Tribal Entities (TYs 2000 - 2004)<sup>10</sup>**

Market Segment	Tax Year					Total Returns
	2000	2001	2002	2003	2004	
<b>Gaming</b>	2,087	2,928	2,764	2,693	1,624	12,096
<b>Non-Gaming</b>	477	767	736	723	368	3,071
<b>Alaska</b>	314	617	627	610	326	2,494
<b>Totals</b>	2,878	4,312	4,127	4,026	2,318	17,661

Source: Analysis of IRS Master File information.

In addition, analysis of IRS Master File data for TYs 2000 through 2004 indicates that ITG office customers with balances due on their accounts when the returns were filed subsequently paid approximately \$515 million (93 percent) of the \$552 million originally reported as owed.

<sup>9</sup> The numbers in Figure 4 do not add up to the totals presented due to rounding.

<sup>10</sup> The number of tax returns filed for TYs 2000 and 2004 are understated because data were not available on the IRS Master File for a specific Master File Tax code for a return typically filed by tribal entities. The Master File Tax code is a 2-digit code used to identify the type of a tax return.



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In TY 2001, tribal entities paid more than 99 percent of the tax reported as owed. In contrast, IRS statistics show that all IRS customers paid approximately 84 percent of what they owed for TY 2001. While a direct comparison cannot be made due to the makeup of the populations, this does indicate the ITG office customers are more diligent in paying their tax obligations than the general IRS taxpayer population.

***Income reported by tribal entities***

Overall, income from tribal partnerships and corporations increased between TYs 2000 and 2004. Partnership income is reported to the IRS on the U.S. Return of Partnership Income (Form 1065), and corporate income is reported on the U.S. Corporation Income Tax Return (Form 1120 series). Analysis of the income reported for the partnerships and corporations owned by the tribes identified the following trends.

***Partnership income<sup>11</sup> - Form 1065***

Tribal entities in the Gaming market segment reported total partnership income of almost \$1.9 billion during TYs 2000 through 2004, for an annual average of approximately \$379 million. The income almost tripled from TY 2000 to TY 2001 then decreased slightly through TY 2004. In contrast, tribal entities in the Non-Gaming market segment reported income of less than \$3.5 million, and [REDACTED]

[REDACTED] Figure 6 shows the partnership income for the Gaming market segment.

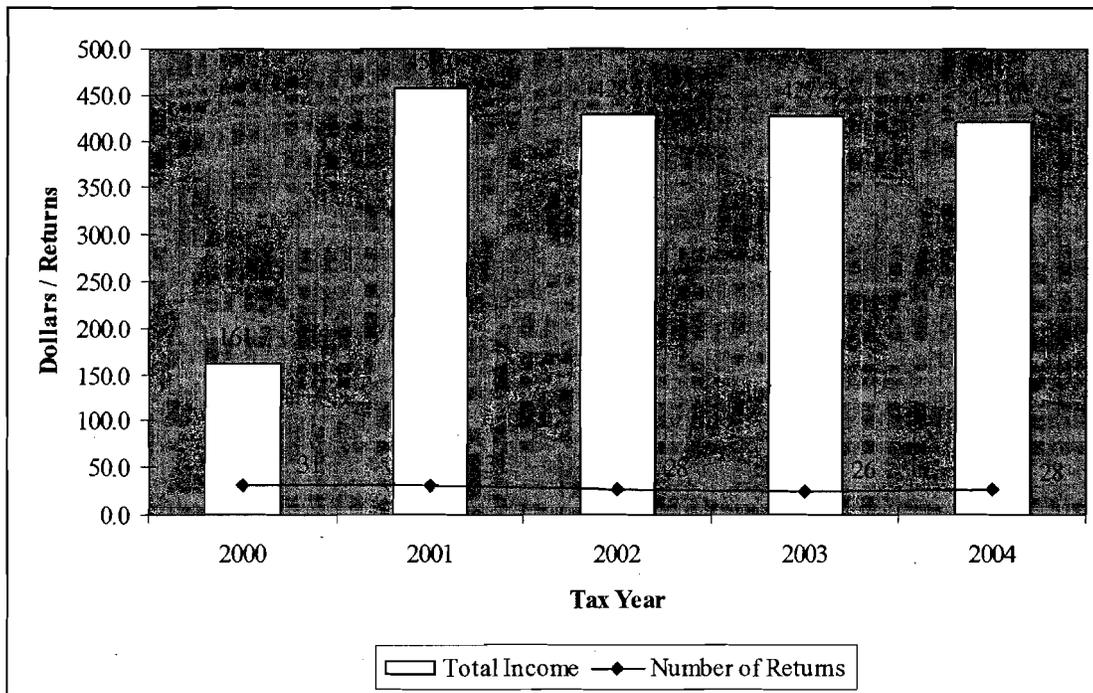
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<sup>11</sup> A partnership does not pay tax on its income but "passes through" any profits or losses to its partners. Form 1065 is an information return used to report the income, deductions, gains, losses, etc., from the operation of a partnership. Partners must include partnership items (e.g., income, deductions, and credits) on their individual tax returns.



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**Figure 6: Total Partnership Income (in millions) Reported by the Gaming Market Segment (TYs 2000 - 2004)**



Source: Analysis of Forms 1065.

Figure 6 shows the dramatic increase in the amount of partnership income in the Gaming market segment from TY 2000 to TY 2001, even though the number of returns filed remained constant.

**Corporate income<sup>12</sup> – Form 1120**

Tribal entities in the Gaming and Non-Gaming market segments reported total corporate income of almost \$219 million during TYs 2000 through 2004.

Figure 7 shows the income and tax reported for the Forms 1120 and 1120S for the Gaming and Non-Gaming market segments. ITG office management expressed concern about the tribal entities that have filed a Form 1120S because the tribal entities cannot be shareholders in these enterprises. ITG office management determined they were already conducting examinations on some of the tribal entities we identified and started performing additional research on the others to determine whether examinations are warranted.

<sup>12</sup> Corporate entities file Form 1120 to report, in part, the corporate income, gains, or losses and to calculate the income tax liability of a corporation. A domestic corporation or other entity may file the U.S. Income Tax Return for an S Corporation (Form 1120S) for any tax year covered by an election to be an S corporation. Corporations filing Forms 1120 pay the income taxes, whereas corporations filing Forms 1120S generally pass the income through to the shareholders, who then pay the tax.



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**Figure 7: Total Corporate Income and Tax Reported on the Form 1120 Series (TYs 2000 - 2004)**

Tax Year	Market Segment			
	Gaming		Non-Gaming	
	Income	Tax	Income	Tax
2000	\$38,336,000	\$37,000	\$793,000	\$2,000
2001	\$40,125,000	\$363,000	\$815,000	\$0
2002	\$35,194,000	\$280,000	\$487,000	\$0
2003	\$44,369,000	\$1,294,000	\$328,000	\$0
2004	\$58,107,000	\$700,000	\$24,000	\$1,000

Source: Analysis of Forms 1120 and 1120S.

The Gaming market segment reported significantly more income and tax on Forms 1120 and 1120S than the other market segments.

**Employee compensation reported by tribal entities**<sup>13</sup>

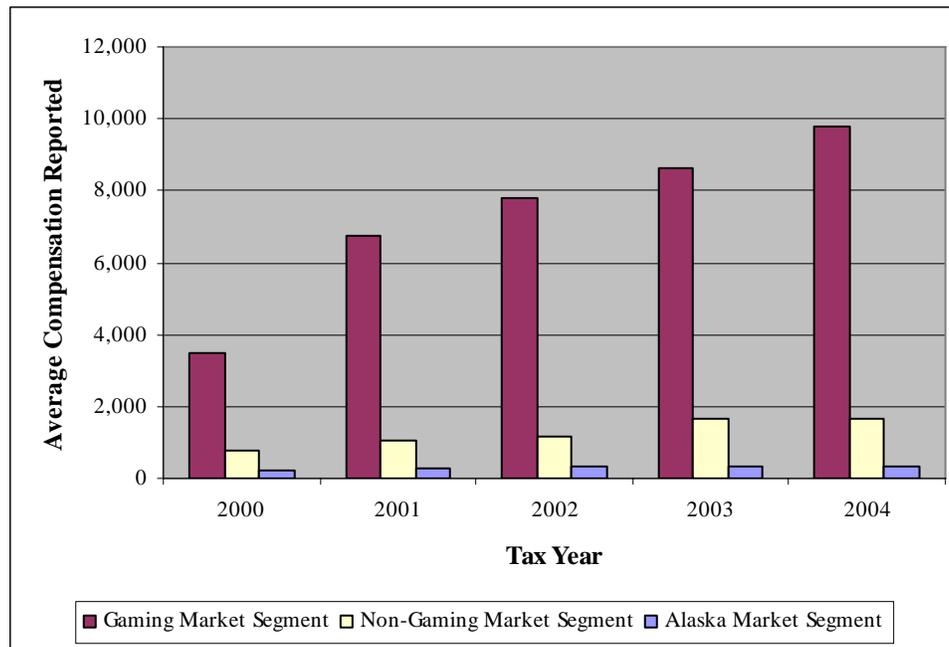
Employee compensation reported by tribal entities increased during TYs 2000 through 2004. Figure 8 shows the calculated average compensation per entity by market segment.

<sup>13</sup> Employers report the amount of wages, tips, and other compensation on either the Employer's Annual Federal Unemployment (FUTA) Tax Return (Form 940) or Employer's Quarterly Federal Tax Return (Form 941).



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**Figure 8: Average Compensation (in thousands) per Entity by Market Segment (TYs 2000 - 2004)**



Source: Analysis of Forms 940 and 941.

The average compensation for all 3 market segments increased over the 5-year period, with the most notable increase in the Gaming market segment, which had a more than a 150 percent net increase in total compensation reported (from more than \$3.6 billion to almost \$9.2 billion).

**Number of employees reported by tribal entities**

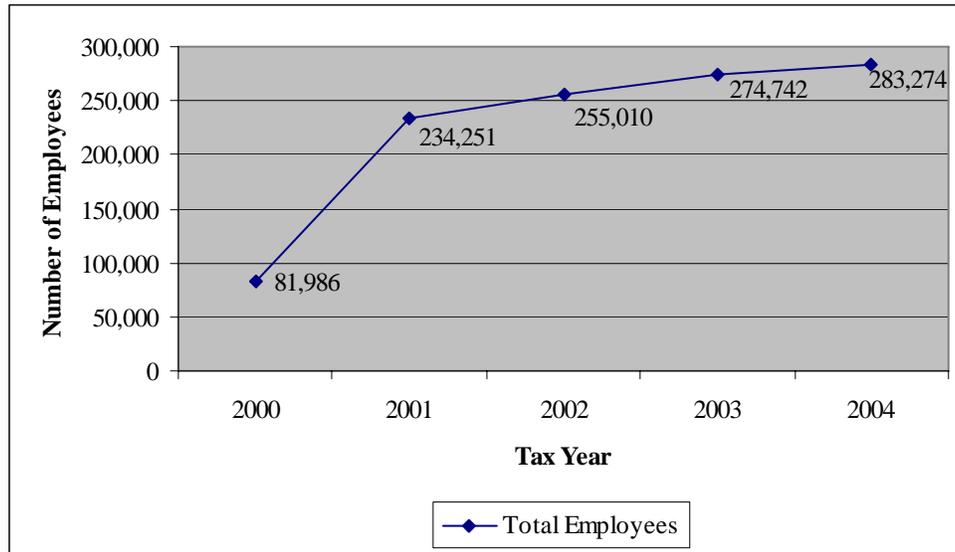
The number of employees reported by tribal entities more than tripled from TY 2000 to TY 2004, as shown in Figure 9.<sup>14</sup>

<sup>14</sup> From our review of IRS Master File data, we noted that many of the entities reported zero employees even though they reported employment taxes on a Form 941. Additionally, we identified instances in which the number of employees on the IRS Master File was apparently incorrect. We estimated the correct number of employees for the obvious errors.



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**Figure 9: Total Number of Employees Reported by Tribal Entities (TYs 2000 - 2004)**



Source: Analysis of Forms 941 and Employer's Annual Federal Tax Returns for Agricultural Employees (Form 943).

The number of employees reported by tribal entities increased from almost 82,000 to more than 283,000. The Gaming market segment showed the largest increase, 276 percent, from more than 69,000 employees in TY 2000 to almost 261,000 in TY 2004. This increase in the number of employees can be attributed in part to an increase of more than 288 percent in the number of Forms 941 and 943 filed by the Gaming market segment.

### **Taxes reported by tribal entities**

Total income, employee compensation paid by the tribal entities, and the amount of taxes<sup>15</sup> reported by the tribal entities increased during TYs 2000 through 2004. Our analysis of taxes reported by the tribal entities identified the following trends.

#### ***Employment taxes reported by tribal entities***

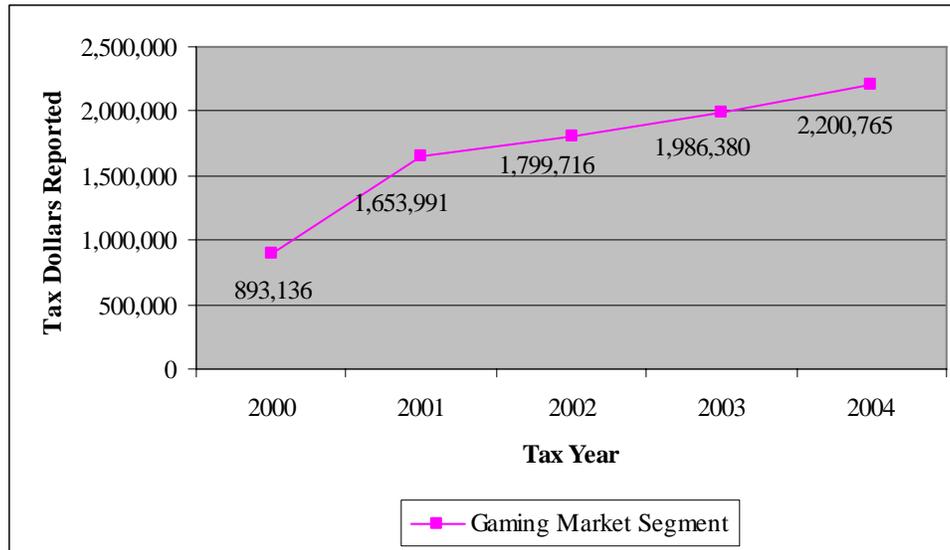
Tribal entities reported more than \$9.1 billion in employment taxes on Forms 941 and 943 during TYs 2000 through 2004. Figures 10, 11, and 12 show the employment taxes reported by the three market segments.

<sup>15</sup> Taxes reported by the tribal entities include, but are not limited to, corporate, employment, Federal unemployment, and excise taxes and taxes withheld on nonpayroll payments and payments to foreign individuals and businesses.



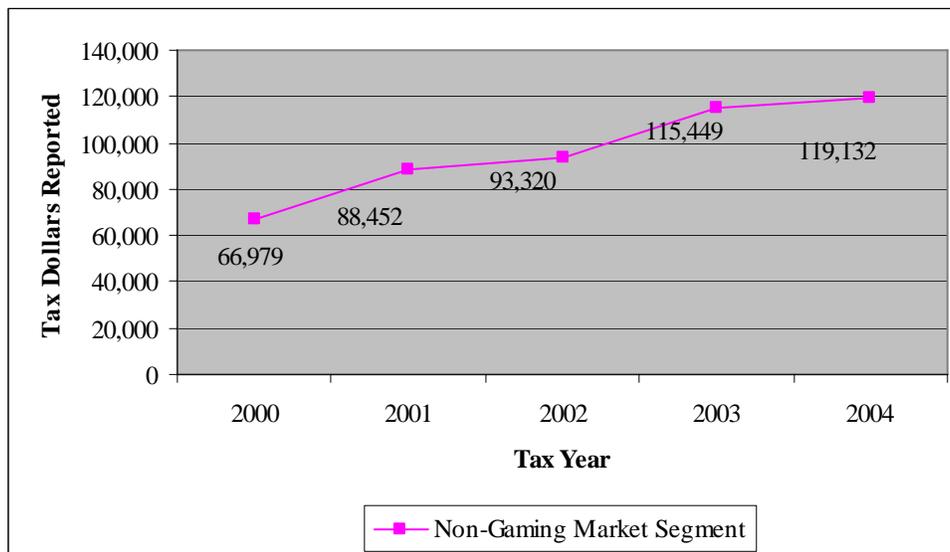
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**Figure 10: Employment Taxes (in thousands) Reported on Forms 941 and 943 by the Gaming Market Segment Entities (TYs 2000 - 2004)**



Source: Analysis of Forms 941 and 943.

**Figure 11: Employment Taxes (in thousands) Reported on Forms 941 and 943 by the Non-Gaming Market Segment Entities (TYs 2000 - 2004)**

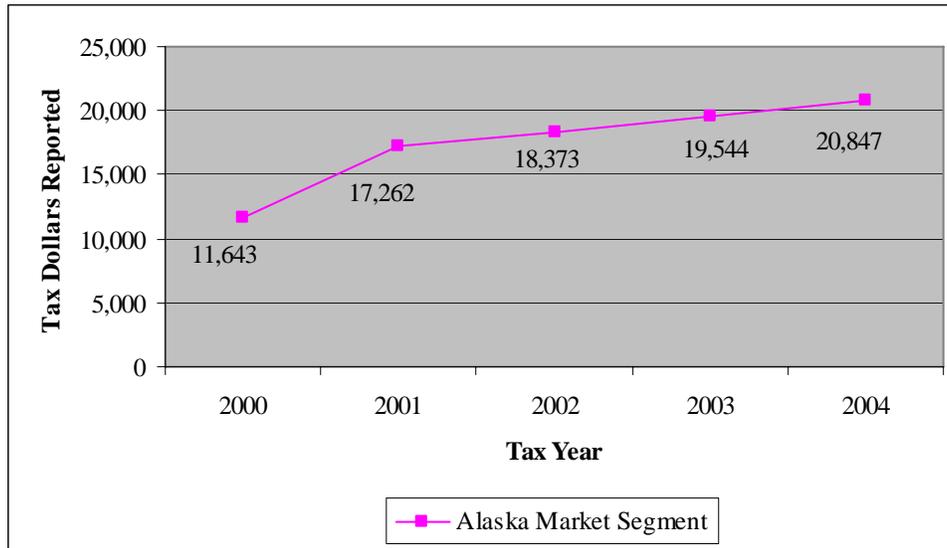


Source: Analysis of Forms 941 and 943.



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**Figure 12: Employment Taxes (in thousands) Reported on Forms 941 by the Alaska Market Segment Entities (TYs 2000 - 2004)**



Source: Analysis of Forms 941.

All three market segments show an increase in the amounts of employment taxes paid.

***Federal income tax withheld***

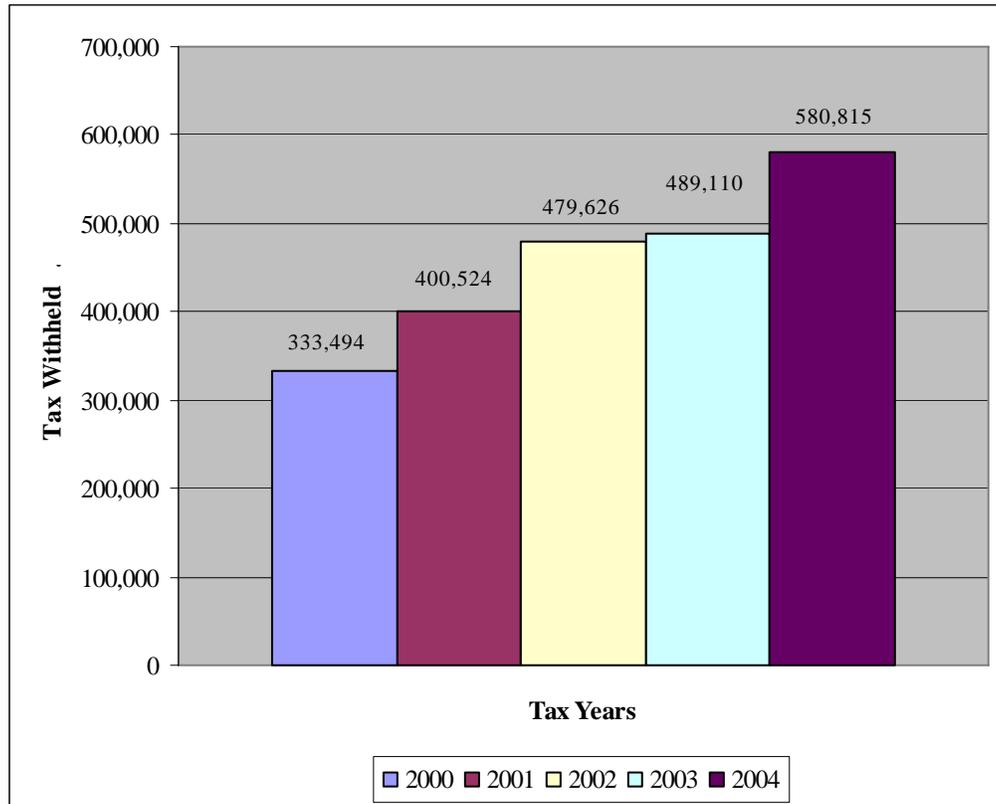
Tribal entities reported more than \$2.28 billion in Federal income tax withheld from nonpayroll payments on Annual Returns of Withheld Federal Income Tax (Form 945)<sup>16</sup> for TYs 2000 through 2004. Figure 13 shows the amount reported as taxes withheld increased each year for TYs 2000 through 2004.

<sup>16</sup> These payments include, but are not limited to, pensions, annuities, and Individual Retirement Arrangement distributions; gambling winnings; and Indian gaming profits. Generally, these taxes are reported on the Form 1099 series of information documents (see Appendix IV for a list of documents in the Form 1099 series) or Certain Gambling Winnings (Form W-2G). Federal income tax withheld from wages is not reported on Form 945.



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**Figure 13: Annual Withholding (in thousands) of Federal Income Tax (TYs 2000 - 2004)**



Source: Analysis of Forms 945.

***Federal Unemployment Tax Act (FUTA)<sup>17</sup> tax reported***

Federal unemployment tax<sup>18</sup> reported by tribal entities on Forms 940 decreased significantly from TY 2000 to TY 2004. Tribal entities are required to pay Federal unemployment tax unless they are complying with and paying State unemployment taxes. Figure 14 indicates a decrease in Federal unemployment tax of more than 50 percent from TY 2000 to TY 2001 for the Gaming market segment. The combined Federal unemployment tax reported by the Alaska and Non-Gaming market segments is approximately 7 percent of the total Federal unemployment tax reported by the ITG office customers.

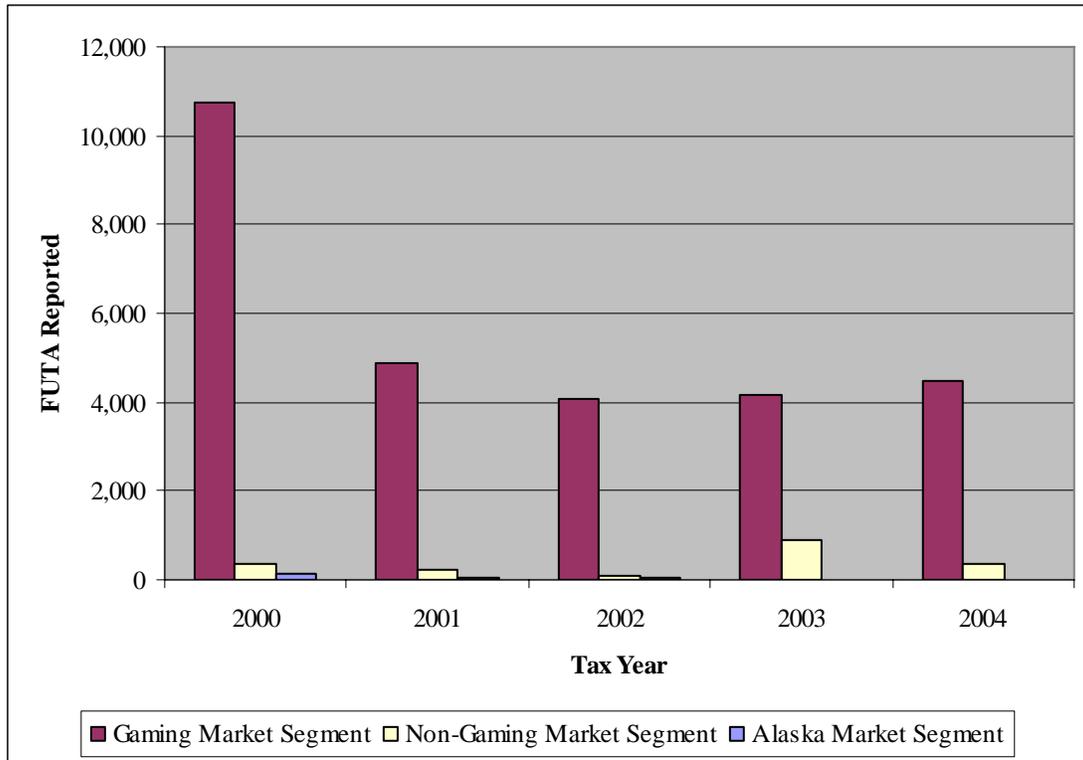
<sup>17</sup> 26 U.S.C. §§ 3301-3312 (2003).

<sup>18</sup> The Federal unemployment tax is part of the Federal and State program under the FUTA that pays unemployment compensation to workers who lose their jobs. Federal unemployment tax is reported and paid separately from Social Security and Medicare taxes and from withheld income tax. It is reported on Form 940.



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**Figure 14: Amount of Federal Unemployment Tax (in thousands) Reported by Market Segment (TYs 2000 - 2004)**



Source: Analysis of Forms 940.

ITG office management stated the tribal entities may have shifted from paying Federal unemployment tax to paying State unemployment taxes due to a legislative change<sup>19</sup> in Fiscal Year 2001 that allows the tribal entities to pay State unemployment taxes rather than Federal unemployment tax.

***Excise taxes reported***

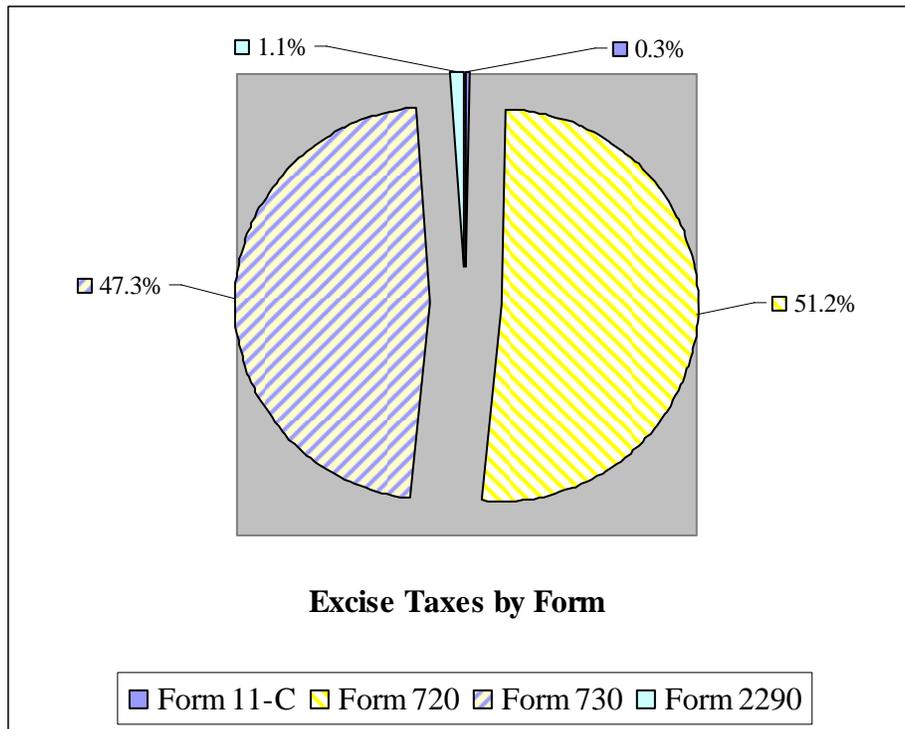
Tribal entities reported more than \$12.7 million in excise taxes during TYs 2000 through 2004. Excise taxes are reported on the Occupational Tax and Registration Return for Wagering (Form 11-C), the Quarterly Federal Excise Tax Return (Form 720), the Monthly Tax Return for Wagers (Form 730), and the Heavy Highway Vehicle Use Tax Return (Form 2290). Figure 15 shows the percentage of excise taxes reported by Form.

<sup>19</sup> Consolidated Appropriations Act of 2001, Pub. L. No. 106-554, Sec. 1(a) (7) [title I, Sec. 166(b), (c)], Dec. 21, 2000, 114 Stat. 2763, 2763A-627.



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**Figure 15: Percentage of Excise Taxes Reported by Form Type (TYs 2000 - 2004)**



Source: Analysis of Forms 11-C, 720, 730, and 2290.

Figure 15 shows Forms 720 and 730 accounted for more than 98 percent of the excise taxes reported: \$6.5 million and \$6.0 million, respectively. Tribal entities reported more than \$144,000 in excise taxes on Forms 2290 and almost \$42,000 on Forms 11-C.

***Tax withheld for foreign persons***

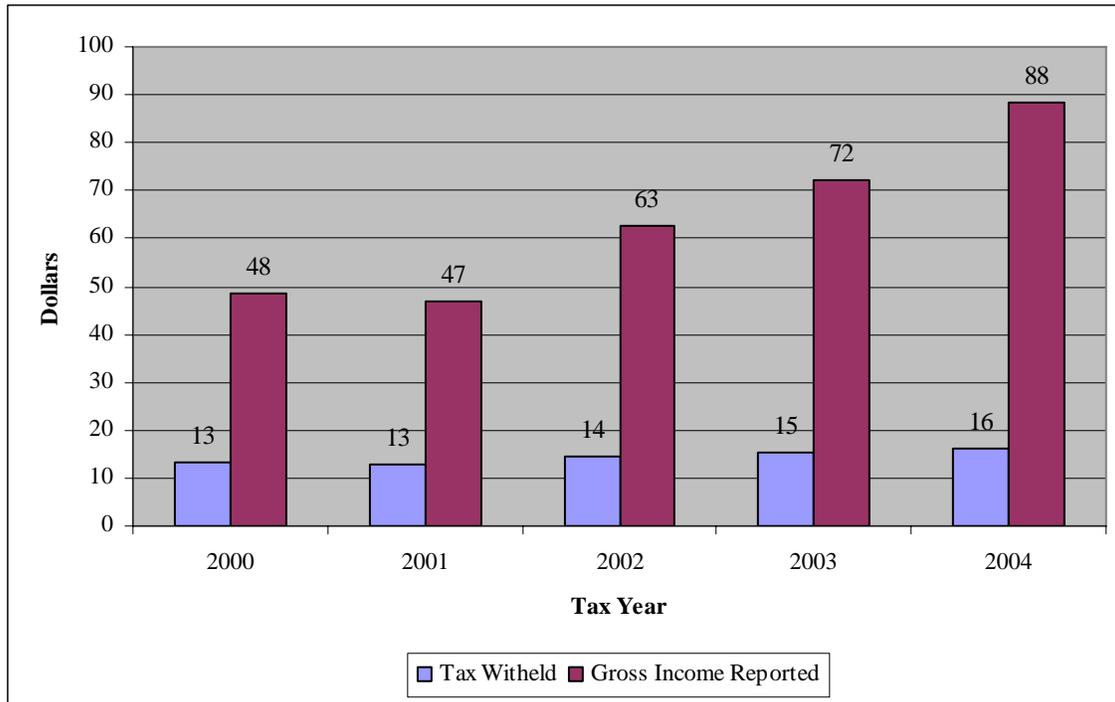
Tribal entities are required to file Annual Withholding Tax Returns for U.S. Source Income of Foreign Persons (Form 1042) to show the gross income paid and the income tax withheld from foreign individuals, including nonresident aliens, foreign partnerships, foreign corporations, foreign estates, and foreign trusts. During TYs 2000 to 2004, tribal entities in the Gaming market segment reported more than \$318 million in gross income paid to foreign individuals and withheld more than \$71 million in taxes.

Figure 16 compares the tax withheld and the gross income reported by the Gaming market segment.



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**Figure 16: Tax Withheld and Gross Income (in millions) Reported by the Gaming Market Segment Entities on Forms 1042 (TYs 2000 - 2004)**



Source: Analysis of Forms 1042.

Although the amount of tax withheld showed a slight increase, it was not proportional to the marked increase in the amount of gross income reported. Gross income reported increased 83 percent from TY 2000 to TY 2004; however, the tax withheld over the same period increased only 23 percent, from \$13.3 million to \$16.4 million. Additionally, the percentage of tax withheld decreased from 27 percent of gross income reported in TY 2000 to more than 18 percent of gross income reported in TY 2004.

The Non-Gaming market segment reported almost \$444,000 in gross income paid on Forms 1042 and withheld more than \$68,000 in taxes. For the 5 tax years we reviewed, the Alaska market segment reported more than \$11,000 in gross income paid on Forms 1042 and withheld less than \$40 in tax.



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## **Appendix I**

### *Detailed Objectives, Scope, and Methodology*

Our overall objectives were to review relevant data for the ITG office customer base tax filing activities for TYs 2000 through 2004 and analyze the data for trends. To accomplish our objectives, we:

- I. Identified and obtained data relating to the ITG office customer base.
  - A. Obtained the ITG Database<sup>1</sup> (cumulative through the end of Fiscal Year 2005) from the Director, ITG, and determined the population and market segments of the ITG office customers.
  - B. Obtained IRS Master File data for TYs 2000 through 2004 for analysis.
  - C. Validated the ITG Database information by relying on previous Treasury Inspector General for Tax Administration audit work<sup>2</sup> that had used and established the validity of the data. The Master File information was validated by relying on the Treasury Inspector General for Tax Administration Information Systems Programs Electronic Data Processing Audit Support group's documentation ensuring the data extracted from the Business Master File were an exact replica and the character of the data was not changed.
- II. Analyzed the tax filing data for TYs 2000 through 2004 and developed a profile of the ITG office's customer base.
  - A. Identified the market segments for the tribes and tribal entities in the ITG office customer base.

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<sup>1</sup> The ITG office developed the ITG Database over the past several years. The ITG Database is made up in part by the Inventory Database, the Outreach Assignment Database, and the Tribal Compliance Database and contains data from the IRS' main database (Master File), the Bureau of Indian Affairs, and other sources on Indian tribal governments and their related enterprises. The ITG Database records contain more than 200 data fields and include information such as tribal entity data, filing requirements, and line-item information from filed returns such as wages paid. The Master File is the IRS database that stores various types of taxpayer account information, including individual, business, and employee plans and exempt organizations data.

<sup>2</sup> *The Process for Assigning Cases Should Be Strengthened to Provide Better Coverage to Indian Tribal Governments Most in Need of Compliance Checks* (Reference Number 2004-10-191, dated September 2004), *The Indian Tribal Governments Office Can Improve the Effectiveness, Consistency, and Efficiency of Compliance Checks* (Reference Number 2005-10-158, dated September 2005), and *Statistical Portrayal of the Indian Tribal Government Office's Enforcement Activities From Fiscal Year 2002 Through Fiscal Year 2005* (Reference Number 2006-10-121, dated August 23, 2006).



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- B. Determined employment tax statistics, such as the number of employees, amount of employment taxes, and amount of wages reported for each market segment, by tax year.
- C. Determined the income reported on the Annual Withholding Tax Returns for U.S. Source Income of Foreign Persons (Form 1042), U.S. Returns of Partnership Income (Form 1065), U.S. Corporation Income Tax Returns (Form 1120), and U.S. Income Tax Returns for an S Corporation (Form 1120S) for each market segment by tax year.
- D. Determined the amount of nonpayroll income tax reported as withheld on the Annual Returns of Withheld Federal Income Tax (Form 945) for each market segment by tax year.
- E. Determined the amount of Federal unemployment tax reported as withheld on the Employer's Annual Federal Unemployment (FUTA) Tax Returns (Form 940) for each market segment by tax year.
- F. Determined the amount of excise taxes reported on the Occupational Tax and Registration Returns for Wagering (Form 11-C), Quarterly Federal Excise Tax Returns (Form 720), Monthly Tax Returns for Wagers (Form 730), and Heavy Highway Vehicle Use Tax Returns (Form 2290) for each market segment by tax year.
- G. Determined the account payment statistics, such as the number of taxpayer accounts that have been settled, on which refunds were owed, or that had balances due and the total associated dollars for each market segment, by tax year.



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**Appendix II**

*Major Contributors to This Report*

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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
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Director, Indian Tribal Governments, Tax Exempt and Government Entities Division  
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Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
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Audit Liaison: Director, Communications and Liaison, Tax Exempt and Government Entities  
Division SE:T:CL



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**Appendix IV**

*List of Tax Forms Used by Tribal Entities*

<b>Form</b>	<b>Title</b>
W-2G	Certain Gambling Winnings
11-C	Occupational Tax and Registration Return for Wagering
720	Quarterly Federal Excise Tax Return
730	Monthly Tax Return for Wagers
940 Series	Employer's Annual Federal Unemployment (FUTA) Tax Return
941 Series	Employer's Quarterly Federal Tax Return
943	Employer's Annual Federal Tax Return for Agricultural Employees
945	Annual Return of Withheld Federal Income Tax
1042 Series	Annual Withholding Tax Return for U.S. Source Income of Foreign Persons
1065 Series	U.S. Return of Partnership Income
1096	Annual Summary and Transmittal of U.S. Information Returns
1099 Series <sup>1</sup>	Various Informational Returns
	1099-A Acquisition or Abandonment of Secured Property
	1099-B Proceeds From Broker and Barter Exchange Transactions
	1099-C Cancellation of Debt
	1099-CAP Changes in Corporate Control and Capital Structure
	1099-DIV Dividends and Distributions
	1099-G Certain Government Payments
	1099-H Health Coverage Tax Credit (HCTC) Advance Payments
	1099-INT Interest Income
	1099-LTC Long-Term Care and Accelerated Death Benefits
	1099-MISC Miscellaneous Income
	1099-OID Original Issue Discount
	1099-PATR Taxable Distributions Received From Cooperatives
	1099-Q Payments From Qualified Education Programs (Under Sections 529 and 530)
	1099-R Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
	1099-S Proceeds From Real Estate Transactions
	1099-SA Distributions From an HSA, Archer MSA, or Medicare Advantage MSA
1120 Series	U.S. Corporation Income Tax Return
2290	Heavy Highway Vehicle Use Tax Return
8027	Employer's Annual Information Return of Tip Income and Allocated Tips

<sup>1</sup> IRA - Individual Retirement Arrangement; HSA - health savings account; MSA - medical savings account.