Treasury Inspector General for Tax Administration
Office of Audit

CURRENCY REPORT DATA CAN BE A GOOD SOURCE FOR AUDIT LEADS

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Highlights

Highlights of Report Number: 2010-30-104 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

Individuals who fail to file required returns or underreport their income can create unfair burdens on honest taxpayers and diminish the public's respect for the tax system. While currency reports may be commonly associated with money laundering, TIGTA identified a number of individuals who have enough cash to engage in currency transactions totaling at least $20,000, but did not file tax returns even though they appeared to have a filing requirement.

A number of other individuals engaged in similar currency transactions filed tax returns, but reported income that does not appear sufficient to cover their basic living expenses. The difference between income and expenses raises questions about whether there are additional income sources that should have been reported.

WHY TIGTA DID THE AUDIT

The objectives of this review were to determine the success the Small Business/Self-Employed Division is achieving in using currency reports to address nonfilers and underreporters and if additional steps could be taken to further enhance this success. The review was initiated as part of our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

WHAT TIGTA FOUND

The Internal Revenue Service (IRS) recognizes the benefits of using Currency Transaction Reports (CTR) in its criminal and civil enforcement efforts. The IRS Criminal Investigation Division has obtained a number of convictions for tax evasion that either originated from CTR data or for which CTR data served as a roadmap to establish a crime was committed. Additionally, IRS examiners closed several hundred audits that were initiated from CTR data and, in the process, recommended additional taxes of $13.6 million.

TIGTA evaluated two statistical samples of individuals with currency reports totaling at least $20,000 that were filed by financial institutions and casinos with the IRS for Tax Year 2007. In the first sample, 31 of 100 individuals appeared to have a filing requirement for Tax Year 2007, but had not filed a tax return. TIGTA estimates the 31 individuals may owe as much as $417,091 in delinquent taxes, penalties, and interest. In the second sample, 17 of the 100 individuals sampled had expenses which seemed too large for the gross income they reported earning. If these 17 individuals have additional income sources that should have been reported, TIGTA estimates they may owe as much as $163,648 in additional taxes, penalties, and interest

WHAT TIGTA RECOMMENDED

TIGTA recommended that, as resources become available, the Director, Examination, Small Business/Self-Employed Division, explore the feasibility of making greater use of CTRs to pursue additional nonfilers and underreporters for audit.

IRS management agreed with the recommendation and plans to evaluate opportunities during their work planning process to expand audit coverage of nonfilers using CTR data. However, IRS management did not commit to pursuing additional potential underreporters for audit, nor did they agree with the outcome measure because of concerns with the selection criteria used.

While TIGTA is pleased that IRS management agrees with the recommendation, it is surprised by the absence of a commitment to pursue additional underreporters given the potential revenue at stake. Regarding the disagreement over the outcome measure, TIGTA maintains that the potential $1.3 billion of increased revenue is reasonable considering the assumptions used to make the estimate.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

http://www.treas.gov/tigta/auditreports/2010reports/201030104fr.pdf.