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IRS Does Business with Delinquent Taxpayers

In a report by the Treasury Inspector General for Tax Administration (TIGTA), it was discovered that the IRS has been engaging 20 companies over the years that have cumulative unpaid taxes of about \$5.2 million.

These 20 companies are IRS contractors engaged to carry out various contracts.

The TIGTA report revealed that IRS procurement officers often do not check on the tax standing of these contractors to find out if they have paid their own business or payroll taxes. And even when they do check and discover the contractors' taxes are not current, there is a loophole in the federal acquisition law that prohibits the IRS from terminating the contract.

In his report, the Inspector General J. Russell George wrote, "Although IRS contractors are not considered employees, they are conducting business and doing work on behalf of the agency whose mission is to ensure taxpayers meet their tax responsibilities. As a result, we believe IRS contractors should be held to the same ethical standards as IRS employees and paid preparers concerning their compliance with the nation's tax laws."

A total of 135 IRS contractors with contracts worth at least \$250,000 between October 2006 and December 2008 were reviewed by the Inspector

General. Out of the 135 contractors, 20 of them owed the IRS back taxes. 6 of these contractor companies already owed \$943,000 at the time they started working on the IRS contracts. This amount had increased to \$4.9 million by March 2009.

Out of the 20 contractors, IRS procurement officials conducted checks on 13 of them but the reviews made did not reveal enough information. For instance, it did not distinguish the type of taxes owed, the age of the debt, or if the contractors had established a plan to repay the outstanding taxes. As for the other 7 contractors, IRS officers did not conduct any check on them.

But whether or not the IRS has done any checking, it is doubtful whether the outcome could have been any different. This is because federal guidelines bar the IRS from using tax-indebtedness to exclude a company from obtaining a contract. Regulations permit the agency to verify a bidder's tax record only at the time of the initial award to determine if the debt could jeopardize the performance of the contract. The guidelines do not require the IRS to check on the contractors at the time of renewal of the contracts, thus the contractors can continue doing business for the IRS regardless of their tax indebtedness.

The IRS renewed the contracts of 17 of the 20 delinquent contractors.