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## Stimulus Fund Recipients Owe Taxes

Talk about biting the hand that feeds you. Thousands of recipients of federal stimulus funds have not been paying their taxes. The government has dished out more than \$24 billion worth of funds to no less than 3,700 such recipients and they owe in excess of \$750 million in unpaid taxes.

The government passed its stimulus package in February 2009 and more than 80,000 contractors and other companies benefited from it. However, almost 5% of them have failed to pay income taxes amounting to more than \$750 million, according to a report by the Government Accountability Office (GAO). This report was requested by Senators Tom Coburn (R-Okla.), Carl Levin (D-Mich.), Charles Grassley (R-Iowa), Max Baucus (D-Mont.) and Orrin Hatch (R-Utah) for tabling at a hearing of the Senate Permanent Subcommittee on Investigations.

The GAO report highlighted 15 cases of non-payment of income taxes by federal stimulus fund recipients.

A construction company was given more than \$1 million in stimulus funds but failed to pay around \$757,000 in federal taxes to the IRS. This comprised mainly of employees' payroll withholding taxes which were never

remitted to the IRS. Ironically, this did not prevent its chief executive making “hundreds of thousands of dollars in casino transactions.”

Likewise, an engineering services company was given more than \$100,000 in federal funds while still owing more than \$6 million in unpaid taxes. The company generally did not pay any federal taxes in the early 2000s, yet they purchased three new cars worth about \$90,000 and paid three of their officers about \$ 700,000.

Senator Coburn said, “It is a matter of basic fairness that those who take government money should be required to pay their taxes like everyone else. That such a huge amount of the stimulus money went to known tax cheats should be a wakeup call for Congress.”

This malady stems largely from the fact that it is not against the law to award contracts to companies that owe the government money.

Compounding the problem is the fact that the IRS is not permitted to divulge taxpayers’ information without the taxpayers’ consent or the contractor was debarred or suspended for offences such as tax evasion.

The IRS implemented steps to curb this problem in 2000. They introduced a means to continuously levy parts of federal payments to offset outstanding taxes. However, there were flaws in the arrangement. Most of the money is paid out to state or local governments who have no information on the tax liabilities of the contractors they transmit the federal money to, so the funds go through without levy.

According to the GAO report, the IRS has taken steps to collect outstanding taxes from the 15 companies highlighted.