

Highlights of [GAO-04-74](#), a report to congressional requesters

TAX ADMINISTRATION

More Can Be Done to Ensure Federal Agencies File Accurate Information Returns

Why GAO Did This Study

The Internal Revenue Service (IRS) matches information returns filed by third parties, including federal agencies, with taxpayers' income tax returns to determine whether taxpayers have filed a return and/or reported all of their income. A correct taxpayer identification number (TIN) is necessary to enable IRS to match these returns. Prior GAO reviews have shown that federal agency payment records often include invalid TINs, particularly for vendors. GAO was asked to study federal agencies' compliance with filing information returns for service payments made to vendors, IRS's efforts to improve agencies' compliance, and whether additional measures could improve their compliance.

What GAO Recommends

To improve federal agency compliance with annual information reporting requirements for vendor payments, GAO is making recommendations to ensure that (1) IRS identifies and follows up with federal agencies that fail to file annual information returns for vendor service payments and (2) IRS and the Office of Management and Budget (OMB) ensure that vendor TINs are validated using IRS's online TIN-matching program.

IRS and OMB agreed to implement our recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-74.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

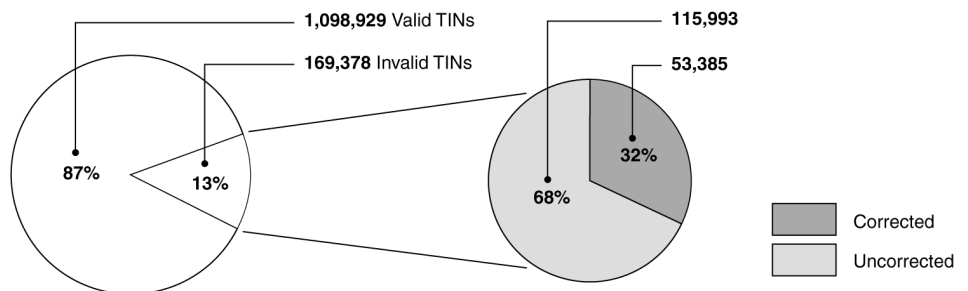
What GAO Found

Federal agencies do not always adhere to information return reporting requirements. About \$5 billion in payments to 152,000 payees made during 2000 and 2001 by agencies within three federal departments were not reported to IRS. About 8,800 of these payees had received \$421 million in payments, yet had failed to file a tax return for these years. In addition, about \$20 billion in payments that were reported to IRS on 170,000 information returns for 2000 and 2001 included invalid vendor TINs. This was due in part to the fact that few federal agencies use IRS's TIN-matching program, as use of this program is optional.

IRS has acted to aid federal agencies in complying with annual information return filing requirements. In August 2003, IRS notified federal agencies about information returns filed for 2001 that included invalid vendor TINs and the need for agencies to withhold a portion of future payments if the vendors fail to provide a valid TIN. IRS is also in the process of making the TIN-matching program available online.

IRS does not currently have a program to identify and follow up with federal agencies that fail to file required annual information returns for vendor payments. Improvements to IRS's Payer Master File, which contains general information on all payers who file information returns, would be necessary for such a program. In addition, although the Central Contractor Registration is intended for use as a central source of valid vendor information by all federal agencies, it contains some invalid TINs. Due to statutory restrictions, all vendor TINs in this database cannot currently be validated through the IRS TIN-matching program, but options exist to address this problem.

Forms 1099 MISC Submitted to IRS by Federal Agencies for Vendor Payments, Including Those with Invalid Vendor Taxpayer Identification Numbers That IRS Was Unable to Correct - Tax Years 2000 and 2001 Combined



Source: IRS.

Note: GAO analysis of IRS data.