DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

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MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Joseph Kehoe
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Opportunities Exist to Identify Unreported Taxes from Employer's Quarterly Federal Tax Returns

Thank you for the opportunity to review and comment upon the methodology and conclusions reached in your report. We appreciate your effort in identifying ways the Service can improve its compliance efforts to ensure accurate reporting on employment tax information on the Employer's Quarterly Federal Tax Return (Form 941). We have always been concerned with the accuracy of the employment tax reporting information and will take necessary action to improve compliance and suppress fraud in this area.

The Service's Combined Annual Wage Reporting (CAWR) Program is an extremely important business area to the Service's Tax Administration responsibilities, including the Criminal Investigation Division. We agree that the Service currently possesses the systemic capability and information sources to increase compliance efforts and identify potential unreported taxes from Forms 941 using data received from the Social Security Administration (SSA) and from the Forms 941 themselves.

We appreciate the opportunity to comment on your report on this important topic. The Commissioners of the Small Business and Self Employed Division, the Large and Mid-Size Business Division, and the Criminal Investigation Division will work together to ensure that Forms 941 accurately report employment tax information.

Additional comments on your report are enclosed. If you have any questions, please have your staff contact Thomas Burger, Director, Office of Employment Tax Administration & Compliance at (202) 622-2479.

Attachment

Attachment

**Response to Draft Treasury Inspector General for Tax Administration (TIGTA) Audit Report — Opportunities Exist to Identify Unreported Taxes from Employer's Quarterly Federal Tax Returns (Ref #1999930120)**

**RECOMMENDATION/FINDING:**
The Criminal Investigation should follow through with its plan to expand its involvement in business-based refund fraud schemes.

**ASSESSMENT OF CAUSE:**
The business culture of the Service and by extension that of Criminal Investigation has been to focus its primary efforts on individual tax.

**CORRECTIVE ACTION:**
Criminal Investigation is following through with its plan to expand its involvement in business-based refund fraud schemes. TIGTA indicated that IRS should initially focus on the 491 business taxpayers identified in our review that received refunds on TY 1998 Forms 941, and offered the data extract, during the exit conference. Upon receipt of that data extract from CAWR program staff, we will work with SB/SE and LMSB.

**IMPLEMENTATION DATE:**

**Completed:** 7/2/2000 **Proposed:** _____

**RESPONSIBLE OFFICIAL(S):**

Criminal Investigation Division, Refund Crimes CI:RC

**CORRECTIVE ACTION(S) MONITORING PLAN:**
The corrective action employed by this recommendation is being incorporated into the formal Criminal Investigation business processes in the Fraud Detection Centers and monitoring will occur to ensure its effectiveness through coordination with the other business units of the IRS.

**RECOMMENDATION/FINDING:**
The IRS should initially focus on the 491 business taxpayers identified in our review that received refunds from TY 1998 Form 941. These taxpayers potentially reported significantly less wages and more advanced EIC on their Forms 941 than they reported on Forms W-2.

**ASSESSMENT OF CAUSE:**
The Service's CAWR program has not addressed cases similar to those identified in the TIGTA audit due to insufficient funding.

**CORRECTIVE ACTION:**
The CAWR Program staff (as part of Small Business and Self Employed Division), working through its field offices, will make an in-depth analysis of 491 employers (as identified by the TIGTA staff). SB/SE, LMSB and CI staffs will be kept apprised of the analysis effort on an on-going basis. The following (but not all inclusive) actions will be considered and taken:

- The pertinent Forms 941 for the year identified will be retrieved, scrutinized, and compared with the Form W-2 data provided by SSA.
- A representative sampling of the employee's individual tax returns will be reviewed as part of the analysis.
- The results and findings of the analysis will be shared with and used by the field examination activity and with the Criminal Investigation staff (if appropriate.
- A multi-functional plan of corrective action involving all affected functions will be considered for submission and approval.

**IMPLEMENTATION DATE:**

COMPLETED:_____ PROPOSED:_____

**RESPONSIBLE OFFICIAL(S):**

Commissioner, Small Business and Self Employed Division

**CORRECTIVE ACTION MONITORING PLAN:**
A monitoring plan will be developed by the CAWR program staff within 120 days of this response submission. When the plan is approved, a report will be made to the new SB/SE Division commissioner within twelve months of the plan's approval date. If warranted and appropriate, the findings and results will be implemented, resources permitting, within twelve months of the division commissioner's approval of the report.

**RECOMMENDATION/FINDING:**
If the analysis identifies a significant noncompliance, additional compliance efforts could include reviewing all taxpayers that report significantly less wages on their Forms 941 than they report on Forms W-2.

**ASSESSMENT OF CAUSE:**
The Service's CAWR program has not addressed cases similar to those identified in the TIGTA audit due to insufficient funding.

**CORRECTIVE ACTION(S):**
Where necessary, SB/SE and LMSB will apply additional resources to ensure the accurate reporting of employment tax information on Forms 941.

**IMPLEMENTATION DATE:**

COMPLETED:_____ PROPOSED:_____

**RESPONSIBLE OFFICIAL(S):**

Commissioner, Small Business and Self Employed Division

Commissioner, Large and Mid-Size Business Division

**CORRECTIVE ACTION MONITORING PLAN:**
The corrective action employed by this recommendation is being incorporated into the SB/SE, Compliance, Compliance Policy, Specialty Tax and monitoring will occur to ensure its effectiveness through coordination with the other business units of the IRS.