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RANKING MINORITY MEMBER
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
GSA CONTRACTORS WHO CHEAT ON THEIR TAXES
AND WHAT SHOULD BE DONE ABOUT IT

March 14, 2006

The current tax gap in this country is about \$345 billion per year. That \$345 billion gap is the difference between the taxes that businesses, organizations, and individuals owe the federal government and what they've actually paid. When so many Americans fail to pay the taxes that they owe, it begins to undermine the fairness of our tax system, forcing honest taxpayers to make up the shortfall needed to pay for basic federal protections – like social security, Medicare, and the weapons needed by our men and women on the frontlines of our military.

Today's hearing focuses on one particular group that contributes to that \$345 billion tax gap – contractors who are awarded contracts by the General Services Administration (GSA) and get paid with taxpayer dollars while, at the same time, failing to pay their taxes. In testimony before this Subcommittee today, the Government Accountability Office (GAO) will describe 3,800 such civilian contractors who have dodged their tax obligations and accumulated tax debts to Uncle Sam totaling at least \$1.4 billion – and are still awarded government contracts. In related reports released over the last 2 years, GAO found 27,000 DOD contractors with accumulated tax debts totaling \$3 billion and 33,000 civilian contractors with accumulated tax debts totaling at least \$3.3 billion. Those are huge numbers – tens of thousands of companies receiving contracts and payments on those contracts from the federal government, while owing billions of dollars in unpaid taxes. It's simply mind boggling that this is allowed to continue.

Tax dodging by any federal contractor is not only unfair to the honest taxpayers left to make up the difference, but also to the honest companies that have to compete against the tax dodgers that aren't paying what they owe, while honest companies do.

One of the main problems here is that contractors are being allowed into the system in the first place and are being awarded contracts even though they owe taxes. There should be a red flag on any contract application by a company that owes back taxes and a requirement for them to explain the circumstances. Tax dodgers should not receive contracts to begin with – their tax debts should be paid before more contracts are awarded, or, at a minimum, until arrangements are made for them to repay the back taxes they owe.

Tax chiseling by federal contractors is not a new story, but it is particularly galling when engaged in by folks who make their living directly from taxpayer dollars. In 1997, Congress enacted the Taxpayer Relief Act which, in part, authorized federal agencies to withhold 15 percent of any federal payment going to a person with an outstanding tax debt. The goal was to stop taxpayer dollars from being paid to a tax deadbeat, unless a portion was withheld off the top

to reduce that person's tax debt. In 2004, we increased the percentage that can be withheld from a contract payment to up to 100 percent.

The Taxpayer Relief Act sought to apply a common sense principle to government operations: to offset the taxpayer dollars sent to people who haven't paid their tax bills by directing a percentage of the total be withheld to reduce their tax debt. That common sense principle isn't always easy to apply in a government that has hundreds of thousands of contractors on the books, but it must be applied and the computer capability to apply that principle exists today.

Until recently, the federal tax levy program was not an effective tool to stop contractor tax deadbeats. But under this Subcommittee's scrutiny, it is improving. The clearest proof is the increase in back taxes collected from federal contractors. In 2003, the tax levy program collected \$7 million. In 2005, it collected \$42 million, a six-fold increase in two years. That's a little progress, anyway, though still far from the \$100 million per year projected by GAO as the minimum that should be collected.

One reason for this progress is the Federal Contractor Tax Compliance Task Force, which was formed after the Subcommittee's first hearing on this topic in 2004, and which has worked hard to improve the tax levy program. These improvements include the following:

- A few years ago, DOD, which issues more contract dollars than any other federal agency, had only 1 out of 16 payment systems integrated into the tax levy program. Now, 18 out of 20 systems are routinely screened for tax levies.
- Prior to 2006, many federal contractors failed to submit valid Taxpayer Identification Numbers (TINs) to the federal government. Without a TIN, the federal government can't perform the computer matches needed to identify tax deadbeats. Last year, in response to the urging of this Subcommittee, the IRS developed a consent-based TIN verification system, requiring taxpayers to allow verification of their TINs as a condition of competing for Federal contracts. The program started October 31, 2005 and by the end of the year, 16 percent of the 380,000 contractors registered in the Central Contractor Registry (CCR) had validated their TINs. By October 31, 2006, 100 percent will have gone through the TIN validation process. Hopefully, the days of missing or false TINs will then be behind us, greatly strengthening the effectiveness of the Federal Payment Levy Program matching process.
- Another milestone is a new effort to identify those federal contractors who have failed to file any tax return. Until recently, the tax levy program had focused only on contractors who have filed tax returns. For the first time last year, a file containing all awarded contracts from DOD and GSA for the past year was matched against IRS data to identify contractors who are non-filers. An analysis is now being conducted on the data to determine appropriate next actions.

- Still another gap in the tax levy program has been federal contractors who are paid by purchase cards, meaning either credit cards or debit cards. To date, these contract payments, which total about \$10 billion annually, have been excluded from the tax levy program. That doesn't make sense. In response to the Subcommittee's request, the task force has completed a study of this problem and recommended blocking payments over \$2,500 via purchase cards to contractors with an active tax debt. The Task Force is now developing a process to create an indicator that a contractor is not eligible to be paid by purchase card and must be paid by check or electronic transfer, payment mechanisms which are already subject to the tax levy program.

Each of these steps is moving us toward a more effective tax levy program, but a lot more needs to be done, including stopping contractors that have tax debt from receiving a contract in the first place. We should be stopping these contractors before they get in the door.

Most federal contractors provide valuable goods or services, and do so while paying their taxes. Other contractors stuff taxpayer dollars in their pockets with one hand, while stiffing Uncle Sam with the other. This tax dodging hurts honest taxpayers, honest businesses, and our country as a whole. Effective use of the federal tax levy program is necessary to help keep the tax dodgers from succeeding.

I commend Senator Coleman for his leadership and sustained effort on this important issue. I look forward to the testimony today.

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