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How the IRS Can Save Money

In light of the hullabaloo surrounding the budget cut imposed by Congress on the IRS, the recently-released report by the Treasury Inspector General for Tax Administration (TIGTA) has become much more enlightening. In case you are not aware, the TIGTA report has surfaced several areas where the IRS has allowed money to be 'leaked out' in its operations. If these leaks can be plugged, it would go some ways towards reducing the impact of the budget cuts.

Here are some suggested ways the IRS can plug the leaks.

1. Reduce storage

The TIGTA reported that the IRS spends about \$862,000 a year on storage fees to keep its 22,486 items of furniture in 34,194 square feet of warehouse space. Depending on the type of furniture, its age and other factors, some of these items of furniture may never again see the light of day because the IRS does not have use of them anymore. The agency also has an ongoing agreement to lease the warehouse space for \$90 million over five years from URS Federal Technical Services Incorporated, a contract that covers moving, storing and managing this inventory.

One way of reducing the storage costs may be to sell off some furniture and/or give some away to other organizations.

2. Control credit card spending

The IRS provides credit cards to certain employees for purchases of less than \$3,000 to cover expenses related to office supplies and other low-cost purchases. Travel expenses, on the other hand, are charged to different credit cards.

The TIGTA report found irregularities in the way credit card spending has been carried out by IRS employees. Some purchases were made without proper authorization while others (2,955 of them) could have been split over two or more payments to keep the amounts below the \$3,000 spending limit.

These are clear signs that the IRS should bring greater scrutiny to its credit card spending to curb abuse and reduce financial wastage.

3. Review illegal workers' credit

Tax fraud is a problem the IRS has to deal with all the time. But one particular credit given out by the IRS that gained the attention of the TIGTA is the Additional Child Tax Credit (ACTC), especially those claimed by unauthorized workers in the US. The TIGTA report states that claims for this credit by the workers who do not have authority to work in this country have skyrocketed from \$924 million in 2005 to \$4.2 billion this year. These are people who do not have Social Security numbers but are issued individual tax identification numbers (ITINs) to facilitate the filing of their tax returns.

What is debatable about these people is whether they are entitled to receive refundable tax credits like other taxpayers are. The IRS is of the opinion it does not have the authority to disallow unauthorized workers from receiving the ACTC. The IRS should request for the review of the ACTC in regards to illegal workers. Not paying these workers the ACTC would substantially reduce the impact of the budget cuts.

4. Collect small debts

The IRS used to outsource the task of collecting small tax debts to third party debt collection agencies. These agencies managed to collect \$98.2 million in delinquent taxes while they were engaged by the IRS. But in March 2009, the IRS discontinued the program.

As a result, the TIGTA estimates the IRS may not collect about \$103.2 million per year, or \$516 million over the next five years, that could be collected with the outsourcing of debt collection.

Therefore, the IRS should seriously consider reinstating the outsourcing of small tax debts program.