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IRS Corners Prisoner Tax Cheats

In their ongoing efforts on catching tax cheats, the IRS has prevented \$4.4 billion in bogus tax refunds from being given out this year. This represents an increase of 171% from the previous year, according to the report released by the Treasury Inspector General for Tax Administration (TIGTA). The TIGTA reported in 2010 that a total of almost 50,000 prisoners claimed more than \$130 million in tax refunds, which largely went unscrutinized.

The TIGTA report also states that, “As of April 30, 2011, the IRS reported that it had selected 199,854 tax returns filed by prisoners for screening. This represents a 256 percent increase in the number of prisoner tax returns identified and sent to screening when compared with the same period last processing year.”

The increasing incidences of tax cheating by prisoners still serving their sentences has been a thorn in the IRS' side of late, which explains the IRS tightening their monitoring of such crimes. In fiscal 2010, investigations into tax fraud increased by 14% and the corresponding recommendations for prosecution rose by 18%, figures that exceeded the IRS' own targets. Audits of millionaires spiked by a hefty 73% last year as the IRS strived to close the tax gap (the difference between the amount of tax collected and the amount actually owed), all in the midst of Congressional budget cuts.

Another major crackdown by the IRS is the investigations into offshore banks suspected of assisting wealthy American taxpayers hide their taxable income in overseas accounts. Thus far, 11 banks have been put under investigation including Credit Suisse, HSBC Holdings and various other regional banks. Over and above all these, the IRS also has to administer various social policy programs through the tax code. This has lent weight to the often heard argument that the tax code is extremely complex.

One other complaint about the IRS is the difficulty in communicating with them. Nina Olson, the National Taxpayer Advocate, commented that, "IRS is still failing to answer one out of every four calls it receives from taxpayers who need assistance. Equally concerning, among calls that do get answered, the average wait time in FY 2010 was nearly 11 minutes, up from about four and one-half minutes in FY 2007."

Besides that, the rate the IRS responds to correspondences also leaves much to be desired. The "correspondence inventory" shot up by 31% between Fiscal Year 2007 and Fiscal Year 2010. According to Olson's estimates, the IRS spends only 5% of its budget on taxpayer services.

Last tax season the IRS gave refunds amounting to \$142.2 million to 140,596 taxpayers due to processing errors. Some of the programs that resulted in significant refund errors were the First-Time Homebuyer Credit, the Adoption Credit, the Nonbusiness Energy Property Credit and the Plug-in Electric and Alternative Motor Vehicle Credit.