



Treasury Inspector General for Tax Administration

MISMATCHED NAMES AND IDENTIFICATION NUMBERS ON INFORMATION DOCUMENTS COULD UNDERMINE STRATEGIES FOR REDUCING THE TAX GAP

Issued on August 31, 2007

Highlights

Highlights of Report Number: 2007-30-159 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) annually receives millions of miscellaneous income and wage statements with mismatched names and identification numbers that it is unable to use in determining if the recipients filed tax returns and/or reported the income reflected on the statements. These mismatches consequently create opportunities for the income recipients to avoid the scrutiny of the IRS through underreporting income and not filing tax returns. Those recipients that take advantage of such opportunities can create unfair burdens on honest taxpayers and diminish the public's respect for the tax system.

WHY TIGTA DID THE AUDIT

This audit was initiated to evaluate the progress of efforts to minimize the volume of mismatched names and identification numbers reported on miscellaneous income and wage statements. Accurate information reporting is central to the success of the nation's voluntary tax system because it assists taxpayers in filing correct tax returns, maintains high levels of compliance, and allows the IRS to more economically and efficiently detect and pursue noncompliant taxpayers who underreport income or do not file tax returns. In Tax Year 2004 alone, the IRS received about 3.8 million miscellaneous income statements (reporting approximately \$150 billion in earnings) that could not be computer matched to a filed tax return because of missing or erroneous identification numbers. Mismatched names and identification numbers on information documents could undermine the effectiveness of the information reporting strategy because the success of the strategy is largely dependent upon the accuracy of the names and identification numbers reported on the documents.

WHAT TIGTA FOUND

The IRS may never significantly reduce the number of miscellaneous income and wage statements with mismatched names and identification numbers without legislative changes. Our reports and those of the Government Accountability Office have long called for legislative changes to address fundamental and systemic problems associated with inaccurate identification numbers on miscellaneous income and wage statements.

TIGTA used IRS automated data systems to manually research statistically valid samples of 374 miscellaneous income statements and 246 wage statements from Tax Year 2004 with mismatched names and identification numbers reporting more than \$60,000 in earnings. TIGTA successfully validated 50 percent of the statements and matched them to taxpayer accounts in IRS records. When projected to the document populations, our sample results indicate 6,042 individuals had not filed tax returns, although the statements reported they had earned, on average, about \$104,327.

WHAT TIGTA RECOMMENDED

The Director, Examination, Small Business/Self-Employed Division, should forward the observations in the report to the Department of the Treasury to use in assessing the need for tax law changes that would allow the IRS to verify employee identification numbers for employers and require employers to (1) use the IRS identification number matching system to verify the accuracy of identification numbers for the employees they hire and (2) withhold taxes at the maximum rates on those whose identification numbers do not match IRS records. Additionally, the IRS automated data systems should be used to research, resolve, and investigate high-dollar miscellaneous income and wage statements with mismatched names and identification numbers.

In their response to the report, IRS officials agreed with our first recommendation but do not plan to take any action on the second recommendation. In deciding not to take action, IRS management noted the additional cost of manually perfecting mismatched names and identification numbers on miscellaneous income and wage statements may exceed the monetary benefits. TIGTA finds it puzzling that the IRS decided not to act on the recommendation based on a cost/benefit concern because our estimated benefit of \$233.36 million in additional revenue exceeds by a large margin the costs the IRS would incur.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200730159fr.pdf>

Email Address: Bonnie.Heald@tigta.treas.gov
Web Site: <http://www.tigta.gov>

Phone Number: 202-927-7037