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TAXPAYER INFORMATION

Data Sharing and Analysis May Enhance Tax Compliance and Improve Immigration Eligibility Decisions

Statement of Michael Brostek
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GAO-04-972T

July 21, 2004

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Highlights

Highlights of GAO-04-972T, a testimony before the Committee on Finance, U.S. Senate

Why GAO Did This Study

Data sharing can be a valuable tool for federal agencies. The Internal Revenue Service (IRS) can use data from taxpayers and third parties to better ensure taxpayers meet their obligations. Likewise, Congress has authorized certain agencies access to taxpayer information collected by IRS to better determine eligibility for benefit programs.

GAO determined (1) the extent to which the IRS and Citizenship and Immigration Services (CIS) within the Department of Homeland Security share and verify data and (2) the benefits and challenges, if any, of increasing such activities. GAO also studied IRS's Offshore Voluntary Compliance Initiative (OVCI) to provide information on (1) the characteristics of the taxpayers who came forward under OVCI and (2) how those taxpayers became noncompliant.

What GAO Recommends

GAO is making a recommendation to the Secretary of Homeland Security and the Commissioner of Internal Revenue to assess the benefits and costs of data sharing to enhance tax compliance and improve immigration eligibility decisions. IRS and CIS officials generally agreed with GAO's recommendation.

GAO is not making recommendations on the OVCI program.

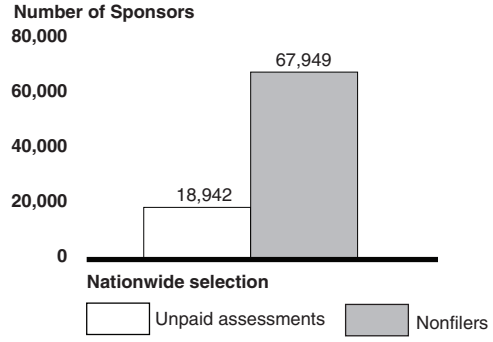
www.gao.gov/cgi-bin/getrpt?GAO-04-972T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

What GAO Found

IRS and CIS do not share data with each other to ensure taxpayers meet their tax obligations or to determine immigration eligibility. IRS officials believe that data on taxpayers' income they currently use are more accurate and useful for enforcing tax law than CIS data. In a nationwide selection of 413,723 businesses applying to sponsor immigrant workers from 1997 through 2004, GAO found 19,972 (5 percent) businesses and organizations that were unknown to IRS. Information like this can be used to select taxpayers for audit or other enforcement efforts. Further, CIS officials believe IRS taxpayer data would useful for immigration decisions. In our nationwide selection, GAO found that 67,949 (16 percent) businesses applying to sponsor immigrant workers from 1997 through 2004 did not file one or more tax returns. Failure to file a return could be relevant to a CIS adjudicator's decision about whether a business meets the financial feasibility (ability to pay wages) and legitimacy (proof of existence) tests for sponsoring an immigrant. For data sharing to occur, challenges must be overcome, including I.R.C. Section 6103's limitation on IRS's ability to share data with CIS and technological problems like the lack of automated financial data at CIS. Because the confidentiality of tax data is considered crucial to voluntary compliance, executive branch policy calls for a business case to support sharing tax data. IRS and CIS have not analyzed data sharing benefits and costs.

Businesses Sponsoring Immigrant Workers That May Not Have Met CIS Financial Feasibility or Legitimacy Requirements, 1997–2004



Source: GAO analysis

The OVCI program attempted to quickly bring taxpayers who held funds offshore illegally back into compliance while simultaneously gathering more information about them and the promoters of offshore schemes. Under OVCI, 861 taxpayers came forward and IRS received more than $200 million in unpaid taxes, penalties, and interest. According to IRS data, OVCI applicants are a diverse group, with wide variations in income, geographic location, and occupation. Some applicants' noncompliance appears to be intentional, while others' appears to be inadvertent. Given this diversity, multiple compliance strategies may be needed to bring taxpayers holding money offshore back into compliance.

Mr. Chairman and Members of the Committee:

I am pleased to participate in the committee's hearing today on issues related to the tax gap, the difference between what taxpayers annually report and pay and what they should have reported and paid in taxes. In addressing the tax gap the Internal Revenue Service (IRS) uses many strategies, two of which are obtaining corroborating information on taxpayers' circumstances from third parties and analyzing data obtained from taxpayers themselves. Just as IRS sometimes obtains corroborating information from others, some federal agencies obtain tax data from IRS to use in ensuring that benefits are properly awarded to applicants. Related to obtaining corroborating information from others, as requested, my testimony covers (1) the extent to which the IRS and Citizenship and Immigration Services[1] (CIS), within the Department of Homeland Security (DHS), share and verify data and (2) the benefits and challenges, if any, of increasing data sharing and verifying activities. Related to analyzing information obtained from taxpayers, and also as requested, my testimony provides information on (1) the characteristics of the taxpayers who came forward under IRS's Offshore Voluntary Compliance Initiative (OVCI) and (2) how those taxpayers became noncompliant.

My statement today will address each of these topics in turn. Our scope and methodology for each of the topics is briefly summarized early in each section of the testimony, and more detailed explanations of our scope and methodology are presented in appendix I for data sharing analysis and appendix II for our analyses related to OVCI. We conducted our work from July 2003 through June 2004 in accordance with generally accepted government auditing standards.

Regarding data sharing, in summary we found that IRS and CIS are not sharing data with each other to ensure taxpayers are meeting their tax obligations or to determine immigration eligibility but that data sharing appears to have the potential to assist IRS in identifying noncompliant taxpayers and to improve CIS eligibility decisions in granting

immigration benefits. For example, IRS may be able to use immigration information to help identify taxpayers with no record of recent filing activity and that are not easily identified via current compliance efforts, such as self-employed and small business taxpayers. In our nationwide selection of 413,723 businesses applying to sponsor immigrant workers from 1997 through 2004, we found 19,972 businesses and organizations that were unknown to IRS. Although IRS does not currently use CIS data, information like this can be used to select taxpayers for audit or other enforcement efforts. IRS officials believe that data on taxpayers' income they currently use are more accurate and useful for enforcing tax law than CIS data. Similarly, CIS may benefit from obtaining IRS data. For example, in our nationwide selection, 67,949 businesses and organizations applying to sponsor immigrant workers did not file one or more tax returns. Failure to file a return could be relevant to a CIS adjudicator's decision about whether a business meets the financial feasibility (ability to pay wages) and legitimacy (proof of existence) tests for sponsoring an immigrant. Although CIS officials believe IRS taxpayer data would be useful, CIS does not obtain data from IRS primarily because, under Internal Revenue Code (I.R.C.) Section 6103, CIS is not authorized to directly receive information from IRS. To enable data sharing between IRS and CIS, several challenges must be first overcome, including the limitations of I.R.C. Section 6103 and technological problems such as the lack of automated financial data at CIS. Because the confidentiality of tax data is considered crucial to voluntary compliance, executive branch policy calls for a business case to support sharing tax data. IRS and CIS have not analyzed data sharing benefits and costs.

We are making a recommendation to IRS and CIS to assess the benefits and costs of data sharing to enhance tax compliance and improve immigration eligibility decisions. IRS and CIS generally agreed with our recommendation.

Regarding the OVCI program, in summary, IRS's database shows that 861 taxpayers voluntarily came forward, and IRS officials say they have received more than $200 million in previously unpaid taxes, penalties, and interest during this attempt to quickly

[1] The U.S. Citizenship and Immigration Services (CIS) was formerly called the Bureau of Citizenship and

bring taxpayers who held funds offshore illegally back into compliance while simultaneously gathering more information about them and the promoters of offshore arrangements.[2] Under the OVCI program, IRS did not impose certain penalties for those taxpayers who voluntarily come forward, admitted they illegally held money offshore, and provided amended returns and complete information about their offshore arrangements for tax years after 1998. IRS used information provided by the taxpayers to build a database containing information such as the taxpayers' income, additional taxes owed, and use of promoters of offshore tax schemes. Since the data are limited to taxpayers who voluntarily admitted they illegally held offshore assets, they are not necessarily representative of any larger population of taxpayers who used offshore arrangements to avoid paying U.S. taxes. The taxpayers who applied for inclusion in the OVCI program were a diverse group, with wide variations in income, geographic location, and occupation, although some commonalities emerged for certain of these characteristics. In addition, some applicants' noncompliance appears to be intentional, such as those who used fairly elaborate schemes, while others' noncompliance appears to be inadvertent. Further, more than half of the OVCI applicants in each year we examined generally had reported their offshore income and paid taxes but had failed to file a Report of Foreign Bank and Financial Accounts (FBAR), and less than 16 percent said that they used promoters. Given this diversity, multiple compliance strategies may be needed to bring taxpayers holding money offshore back into compliance. Because additional tax, interest, and penalties collected to date from OVCI applicants who owed tax have been relatively modest—a median of about $5,400—personnel-intensive investigations of individual taxpayers who have hidden money offshore could significantly reduce the net gain to Treasury from these cases.

The next section describes in more detail our analyses related to data sharing between IRS and CIS. It is followed by detailed information about the participants in IRS's OVCI.

Immigrations Services when established in 2002.

[2] Illegal offshore arrangements are those that are used to avoid paying U.S. taxes. These could include arrangements to shelter unreported domestic income or any income earned offshore, such as interest income, investment returns, or ordinary business income. Promoters are those who market such illegal offshore schemes and cause some taxpayers to become noncompliant.

Data Sharing Between IRS and CIS

Our key findings resulting from our look at data sharing between IRS and CIS are as follows:

- IRS may benefit from immigration information to select taxpayers who appear to be noncompliant for enforcement actions and, if immigration applicants were required to be current on their tax obligations before applying for immigration benefits, from taxpayers coming to IRS to resolve tax issues. Regarding improving IRS's selection of potentially noncompliant taxpayers, IRS could benefit if CIS data helped it identify taxpayers who fail to file tax returns or who file but underreport their income. For nonfiling, we matched a nationwide selection of automated immigration applications from 1997 through 2004[3] with IRS taxpayer information and found that of the 413,723 businesses with Employer Indentification Numbers (EINs) or Social Security Numbers (SSNs)[4] in CIS's database that applied to sponsor immigrant workers, 19,972 businesses and organizations were unknown to IRS. For underreporting, we found 10 business/organization sponsors in our nonprobability sample of hard copy immigration applications[5] that reported more taxable income to CIS than to IRS. One business reported approximately $162,000 in taxable income to CIS in 2001 and no taxable income to IRS for the same period. Although we do not know whether these businesses reported accurately to either CIS or IRS, discrepancies like these often are considered by IRS in selecting firms or individuals to audit. Regarding the potential numbers of taxpayers who would need to resolve their tax situations if CIS applicants were required to be current on their tax obligations

[3] In order to study the nationwide implications of data sharing, we used data from CIS's nationwide Computer Linked Application Information Management System (CLAIMS 3) database. Although this database did not include financial information, it included EINs and SSNs that we could use to determine whether IRS had received a tax return and, if so, the status of the taxpayer's account.
[4] Individuals who operate a business and report income and losses on a Schedule C attached to their individual income tax return use their SSN.
[5] Results from nonprobability samples cannot be used to make inferences about a population, because in a nonprobability sample some elements of the population being studied have no chance or an unknown chance of being selected as part of the sample. We selected hard copy application files because CIS's

before applying for benefits, we found, that 18,942 businesses in our nationwide selection sponsoring immigrants from 1997 through 2004 had unpaid tax assessments at the time of application; the assessments totaled $5.6 billion as of December 2003. Further, in addition to the 19,972 businesses unknown to IRS mentioned above, all of the taxpayers that IRS already knew had not filed one or more tax returns but that applied for immigration benefits—67,949 according to our match of a nationwide selection of immigration applications—also would need to resolve their tax issues.

- At the same time, CIS may also benefit from having access to IRS taxpayer information when making immigration eligibility decisions. For example, IRS taxpayer data can help CIS officials identify those businesses and organizations that may not have met the requirements for financial feasibility (ability to pay wages) or legitimacy (proof of existence) when they apply to sponsor immigrants. We found that 67,949 of 413,723 (16 percent) of business sponsors in our nationwide selection were in IRS's nonfiler database at the time of their application to sponsor an immigrant worker. These business sponsors had not filed one or more income or Federal Insurance Contribution Act (FICA)/Federal Unemployment Tax Act (FUTA) employment returns between 1997 and 2004. Additionally, 19,972 business sponsors (5 percent) were unknown to IRS. Especially for smaller businesses, failure to file a return may indicate the business is struggling financially. CIS officials told us that access to IRS taxpayer data could also improve the efficiency of making eligibility decisions by reducing decision-making time and decreasing rework/follow-up work, which, in turn, could help CIS address its backlog for processing immigration applications.

- CIS and, to a lesser extent, IRS face significant challenges for establishing a data sharing relationship. CIS faces several technology challenges, including CIS does not automate any financial data, such as the applicant's income, and both agencies use different tracking numbers—that is, CIS uses alien registration

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automated systems did not have income or other tax related information that could be used to match with

numbers, which CIS assigns to individuals and businesses, while IRS uses SSNs or EINs for individuals and businesses. Given CIS's data limitations, IRS would need to determine whether and how it could efficiently access and use CIS data to identify potentially noncompliant taxpayers. In addition, since I.R.C. Section 6103 does not authorize IRS to disclose taxpayer information for immigration eligibility decisions, CIS would need to seek a legislative change to I.R.C. Section 6103 or ask taxpayers for consent to obtain tax data directly from IRS. However, because the confidentiality of tax data is considered crucial to voluntary compliance, executive branch policy calls for a business case to support sharing tax data. Further, the Computer Matching and Privacy Protection Act of 1988 generally requires that no matching program between agencies can be approved unless the agencies have performed a cost-benefit analysis for the proposed matching program that demonstrates the program is likely to be cost effective. IRS and CIS have not analyzed and do not currently have plans to analyze data sharing benefits and costs.

Our findings related to data sharing are based on interviews, reviews of agency documents and various publications, and matching of immigration and IRS taxpayer data. We used two sets of CIS data to match with IRS taxpayer data to determine the potential value for increased data sharing and matching. First, we used nationwide selection of automated CIS applications that included SSNs and EINs from immigration applications submitted to CIS service centers from 1997 through 2004. Approximately 3.4 million of 4.5 million automated immigration records had SSNs or EINs that could be used to match with SSNs and EINs in IRS databases. We used this data to determine whether businesses and others that had applied to sponsor immigrant workers or immigrants applying to change their immigration status had filed a tax return with IRS and, if so, whether they owed taxes to IRS. Because the nationwide selection did not include any financial information, we could not use it to determine whether CIS applicants reported the same income amounts to IRS as well as to CIS. Therefore, we also selected a nonprobability sample of about 1,000 immigration hard copy applications

IRS databases. We transcribed personal and financial information from CIS's paper files.

for citizenship, employment, and family-related immigration and change of immigration status filed by businesses and individuals from 2001 through 2003 at 4 immigration locations.[6] We used the hard copy applications to build a database of personal and financial information. We used this sample to determine whether CIS applicants reported the same income information to IRS as to CIS and also as a second source of information on the extent to which CIS applicants may not have filed tax returns and may have owed taxes to IRS. We assessed the reliability of IRS's Individual Master File (IMF) and Business Master File (BMF) data and the CIS's Computer Linked Application Information Management System, Version 3.0 (CLAIMS 3), which is a database containing nationwide immigration data. We determined that the data were sufficiently reliable for the purposes of this testimony.

Background

As we have previously found, federal agencies are increasingly using data sharing to help verify applicant-provided information.[7] To facilitate this, Congress has authorized a number of agencies to access federal taxpayer information collected by IRS to improve the accuracy of eligibility decisions. The Social Security Administration (SSA) is one agency, for example, that has an extensive data sharing relationship with IRS, which aids in administering Social Security benefit programs and ensuring taxpayer compliance. Overall, SSA is responsible for paying approximately $42 billion monthly in benefits to more than 50 million people. This relationship, which has been in place for almost 30 years, provides the basis for matching of employee earnings reported to SSA and IRS; allows for the disclosure of taxpayer mailing address information for the Personal Earnings and Benefit Estimate Statement program; and helps SSA determine the eligibility of applicants and recipients of Supplemental Security Income. IRS, on the

[6] CIS has four service centers nationwide established to handle the filing, data entry, and adjudication of certain applications for immigration services and benefits. District offices are responsible for providing certain immigration services and benefits to residents in their service area, and for enforcing immigration laws in that jurisdiction.

[7] As used in this testimony, "data sharing" means obtaining and disclosing information on individuals between federal agencies, such as IRS and CIS, to determine eligibility for benefits and to ensure taxpayers have met their tax obligations. U.S. General Accounting Office, *The Challenge of Data Sharing: Results of a GAO-Sponsored Symposium on Benefit and Loan Programs*, GAO-01-67 (Washington, D.C.: October 20, 2000).

other hand, uses SSA-processed wage and earnings information to ensure tax compliance by verifying individuals' income tax return information against that reported by their employers. SSA officials say that sharing and verifying taxpayer information is cost and time efficient, reduces waste and fraud, and is mutually beneficial for both agencies.

Although such data sharing arrangements can be useful, privacy advocates, lawmakers, and others are concerned about the extent to which the government can disclose and share citizens' personal information, including sharing with other government agencies. Historically, lawmakers and policymakers have created legislation to address these concerns. For example, the Privacy Act of 1974[8] regulates the federal government's use of personal information by limiting the collection, disclosure, and use of personal information maintained in an agency's system of records. The Computer Matching and Privacy Protection Act of 1988[9] further protects personal information by requiring agencies to enter into written agreements, referred to as matching agreements, when they share information that is protected by the Privacy Act of 1974 for the purpose of conducting computer matches.

As one of the largest repositories of personal information in the United States, IRS is often at the center of these concerns. IRS receives tax returns from about 116 million individual taxpayers who have wage and investment income and from approximately 45 million small business and self-employed taxpayers each year. IRS performs a variety of checks to ensure the accuracy of information reported by these taxpayers on their tax returns. These checks include verifying computations on returns, requesting more information about items on a tax return, and matching information reported by third parties to income reported by taxpayers on returns (i.e., document matching). IRS's document matching program has proven to be a highly cost-effective way of identifying underreported income and thereby bringing in billions of dollars of tax revenue while boosting voluntary compliance.

[8] Pub. L. No. 93-579, December 31, 1974.

I.R.C. Section 6103, amended significantly by the Tax Reform Act of 1976,[10] is the primary law used to restrict IRS's data-sharing capacity. The law provides that tax returns and return information are confidential and may not be disclosed by IRS, other federal employees, state employees, and certain others having access to the information except as provided in I.R.C. Section 6103. I.R.C. Section 6103 allows IRS to disclose taxpayer information to federal agencies and authorized employees of those agencies for certain specified purposes. Accordingly, I.R.C. Section 6103 controls whether and how tax information submitted to IRS on federal tax returns can be shared. I.R.C. Section 6103 specifies which agencies (or other entities) may have access to tax return information, the type of information they may access, for what purposes such access may be granted, and under what conditions the information will be received. For example, I.R.C. Section 6103 has exceptions allowing federal benefit and loan programs to use taxpayer information for eligibility decisions. Because the confidentiality of tax data is considered crucial to voluntary compliance, if agencies want to establish new efforts to use taxpayer information, executive branch policy calls for a business case to support sharing tax data.

CIS is part of DHS, which was established by the Homeland Security Act of 2002.[11] CIS is responsible for administering several immigration benefits and services transferred from the former Immigration Services Division of the Immigration and Naturalization Service. Included among the immigration benefits and services CIS's offices oversee are citizenship, asylum, lawful permanent residency, employment authorization, refugee status, intercountry adoptions, replacement immigration documents, family- and employment- related immigration, and foreign student authorization. CIS's functions include adjudicating and processing applications for U.S. citizenship and naturalization, administering work authorizations and other petitions, and providing services for new residents and citizens. CIS's employees for reviewing immigration benefit applications and determining if they should be approved are its adjudicators, while CIS's Fraud Detection Units (FDU) investigate cases in which there are trends or patterns that

[9] Pub. L. No. 100-503, October 18, 1988.
[10] Pub. L. No. 94-455, October 4, 1976.
[11] Pub. L. No. 107-296, § 451, 116 Stat. 2195.

suggest potential fraud. CIS staff work with applicants through the adjudicatory process beginning with initial contact when an application or petition is filed, through the stages of gathering information on which to base a decision. This contact continues to the point of an approval or denial, the production of a final document or oath ceremony, and the retirement of case records.

IRS and CIS Do Not Share and Verify Data for Tax Compliance or Eligibility Decisions

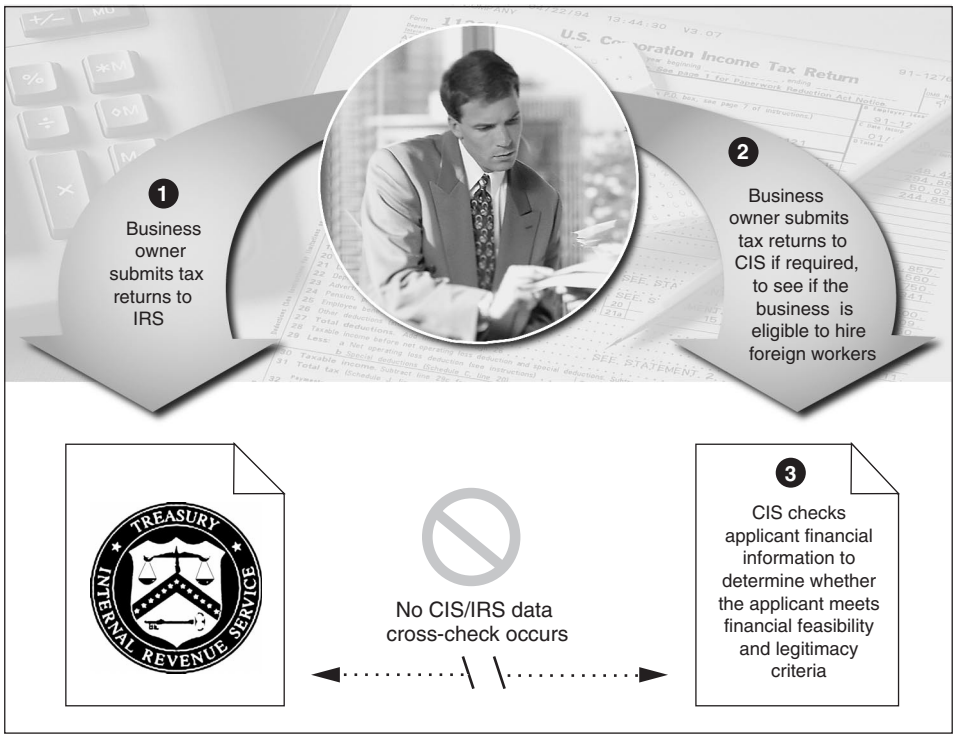
IRS does not use personal information collected and maintained by CIS to ensure that taxpayers meet their tax obligations because IRS officials believe that data on taxpayers' income they already receive from taxpayers and third parties is more accurate and useful for enforcing tax obligations than CIS data. IRS officials cite a previous data sharing effort with CIS that was ultimately ended due to incomplete data and increased costs. In the mid-1980s, CIS and IRS entered into a cost-reimbursable data sharing agreement that enabled CIS to share immigrant data with IRS by completing IRS Form 9003.[12] According to IRS officials, IRS used form 9003 to help identify whether individuals who filed for U.S. permanent residency had filed tax returns and properly reported their income. CIS and IRS shared form 9003 data for about 10 years but ended this arrangement in 1996, according to an IRS official. Much of the form 9003 immigrant data received from CIS lacked SSNs–a primary mechanism IRS uses for tracking individual taxpayers, which made it increasingly difficult for IRS to use the data to determine whether individuals had filed taxes and properly reported income, according to IRS officials. Additionally, the costs associated with the data sharing agreement escalated each year, to the point that, in IRS's opinion, it was no longer cost effective.

Under I.R.C. Section 6103, CIS is not authorized to receive taxpayer information from IRS directly. Although CIS officials would like to use IRS taxpayer data to help make

[12] CIS completed Form 9003 whenever an immigrant filed for lawful permanent residency status. The form contained personal identifying information on the immigrant such as name and SSN as well as financial information on an individual's income. CIS provided a contractor with the Form 9003s, and the contractor then transcribed the Form 9003 immigrant data onto tape and sent it to IRS's Martinsburg Computing Center (MCC). IRS conducted matches of the Form 9003 immigrant data against its own databases to determine whether the individuals had filed taxes and properly reported their income.

immigration eligibility decisions, they have not sought it due to perceived difficulty in overcoming the I.R.C. Section 6103 limitation. CIS obtains self-reported personal and financial information provided by (1) businesses and individuals applying to sponsor immigrant workers, (2) individuals applying to sponsor relatives, and (3) individuals applying to enter the country, extend their stay or obtain citizenship. CIS also obtains information from third parties, not including IRS, to verify applicants' self-reported data. Although CIS adjudicators sometimes ask businesses and individuals to provide them with either official income tax returns from IRS or unofficial copies to verify financial information reported on immigration forms, immigration officials we spoke with in five field locations said applicants could alter or falsify those documents. Figure 1 illustrates the current lack of data verification activities between CIS and IRS during the immigration application process.

Figure 1: Illustration of the Current Lack of Data Verification between CIS and IRS



Source: GAO.

Increased Data Sharing May Benefit IRS's Tax Compliance Efforts and CIS's Immigration Eligibility Decisions

Increased data sharing and verification between IRS and CIS may result in IRS increasing tax compliance and CIS making better immigration eligibility decisions. CIS data may be useful to IRS in identifying businesses and organizations unknown to IRS and those that may not have reported the same income to both agencies. Further, IRS data may enable CIS to (1) better identify businesses or individuals that may not have met immigration eligibility criteria because they had unpaid assessments or did not file tax returns and (2) improve the efficiency of adjudicators' eligibility decision making.

IRS May Benefit From Using CIS Information to Identify Taxpayers with No Recent Filing Activity or That Report Different Incomes to Both Agencies

IRS may be able to use immigration information to help identify taxpayers with no record of recent filing activity and that are not easily identified via current compliance efforts, such as self-employed and small business taxpayers. IRS shares with and receives from other agencies, such as SSA, personal and financial information via document matching to help identify individuals and businesses with tax obligations. However, document matching is not very effective for taxpayers that have sources of income not subject to such reporting. For example, the income of self-employed taxpayers and others that receive income directly from clients is not always subject to third party reporting. Both GAO and the Treasury Inspector General for Tax Administration (TIGTA) have previously reported on these document-matching limitations and stated that certain taxpayers, such as those who are self-employed, are much less compliant in fulfilling their tax obligations than those whose income is subject to information reporting.[13] IRS has also acknowledged that those taxpayers that are not well covered by document matching programs represent the biggest portion of taxpayers that do not voluntarily and timely pay their full taxes. IRS reports taxpayers served by

[13] U.S. General Accounting Office, *Reducing the Tax Gap: Results of a GAO-Sponsored Symposium*, GAO/GGD-95-157 (Washington, D.C.: June 2, 1995). U.S. Department of the Treasury, Inspector General for Tax Administration, *Management Advisory Report: Comparing the Internal Revenue Service's Verification of Income for Wage Earners and Business Taxpayers* (Washington, D.C.: September 2001).

IRS's Small Business and Self-Employed Division are among those least covered by their document-matching programs. As of March 2001, these taxpayers accounted for 64 percent of IRS's accounts receivable database—which contains taxes assessed but not paid.

Immigration information may be potentially useful to IRS in identifying taxpayers required to file but that have not and that may be applying to (1) sponsor immigrants, (2) seek citizenship, or (3) extend their stay in the country. We matched a nationwide selection of automated applications of 413,723 business and organizations applying to sponsor temporary, permanent and religious workers between 1997 and 2004 and found 19,972 businesses and organizations that were unknown to IRS. We matched a nonprobability sample of hard copy immigration applications submitted between 2001 and 2003 and found 20 of 475 business/organization sponsors had established an identity with IRS at some time in the past but had no record of tax activity in the past 5 years. An additional 13 businesses/organizations in our nonprobability sample were unknown to IRS. For example, one company sponsoring a temporary worker reported a gross annual income of $156 million on its CIS application, but the EIN listed on its application does not match any of IRS's master file databases. Five business sponsors in our nonprobability sample submitted income tax returns to CIS with their applications, but IRS had no record of receiving these returns.

In order to determine whether these businesses/organizations were operating, and thus, likely to have had filing requirements, we searched the business/organizations' web sites, "LexisNexis,"[14] and the online yellow pages. We found 31 of the 33 total business/organization sponsors that had established an identity or were unknown to IRS appeared to be in operation. For example, one business sponsoring a permanent worker had a website, a listing on LexisNexis, and on the online yellow pages, all with the same address.

[14] LexisNexis is an information/research tool that, among other things, maintains public records on businesses and individuals.

Although the majority of businesses and organizations applying to sponsor immigrant workers in our nonprobability sample reported the same income to both agencies, we identified 10 business/organization sponsors that had submitted tax return information to CIS with significantly different income than they reported to IRS. As a group, the 10 business sponsors reported over half a million dollars more to CIS in taxable income than to IRS for the period from 2001 through 2002. For example, one business reported a little over $162,000 in taxable income to CIS in 2001 and no taxable income to IRS for the same period. Although we do not know whether these businesses reported accurately to either CIS or IRS, discrepancies like these often are considered by IRS in selecting firms or individuals to audit.

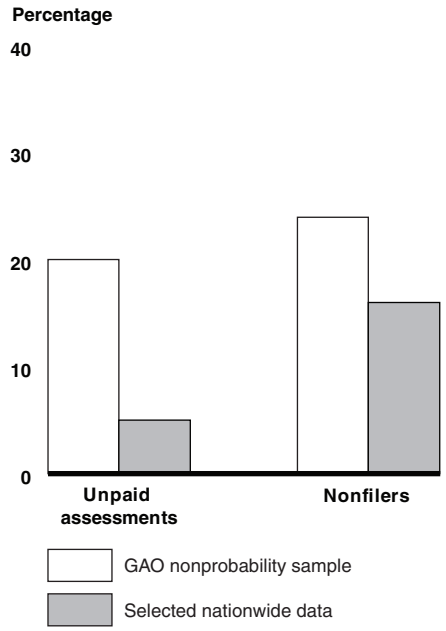
IRS Might Also Benefit if Applicants for Immigration Benefits Were Required to Be Current on Their Taxes

IRS might gain an additional benefit from establishing a data sharing relationship with CIS if immigration applicants were required to be current on their taxes before they could apply for immigration benefits. That is, if sponsors or immigrants were required to provide CIS with evidence from IRS that they had no outstanding tax obligation before any immigration benefit application could be processed, sponsors and immigrants would need to have filed returns and paid taxes due. IRS officials said that such a requirement would likely help with tax compliance and would be similar to procedures IRS currently follows in certain other situations.

Although the information sharing to help target IRS enforcement efforts, as previously discussed, would help IRS identify and follow up on some sponsors and immigrants that may not be fully compliant, a requirement that all immigration benefit applicants be current on their tax obligations has the potential to increase the total number of noncompliant taxpayers that would be brought into compliance. For example, requiring all immigration benefit applicants to be current on their tax obligations would mean that delinquent taxpayers IRS knows about but that have not yet settled their tax debts would need to do so. Based on our nationwide selection, we found that 18,942 of 413,723 (5

percent) businesses applying to sponsor workers entering the country from 1997 through 2004 had unpaid assessments of $5.6 billion at the time they applied to CIS, and 67,949 business sponsors had not filed one or more required income or employment tax forms. Finally, the 19,972 business sponsors in our nationwide selection that applied to CIS for which IRS had no record of receiving a tax return would need to resolve their tax status with IRS. Figure 2 shows our results on business sponsors that have unpaid assessments or are nonfilers for both our nationwide selection and nonprobability sample of immigration applications.

Figure 2: Businesses Who Owed IRS Taxes or Nonfilers Known to IRS When They Applied to Sponsor Workers to Enter the Country, 1997 to 2004



Source: GAO analysis.

IRS has established a process for taxpayers that need to demonstrate clean tax records before they can apply for benefits. Taxpayers can obtain a "fact of filing" or "fact of payment" document to demonstrate that they have been filing required tax returns and paying their taxes. For example, the state of Nevada requires casino employees to be current on their federal taxes, and applicants must sign taxpayer consent forms allowing the state to verify tax information with IRS via the "fact of filing" or "fact of payment."

CIS May Benefit from Using IRS Taxpayer Data to Make More Accurate Immigration Eligibility Decisions

CIS headquarters officials told us immigration adjudicators use two basic criteria for evaluating the eligibility of businesses and individuals to sponsor immigrants: (1) the sponsor's financial feasibility and (2) the legitimacy of the sponsor's existence. Financial feasibility refers to the sponsor's ability to pay wages to or financially support the individual being sponsored. For example, if a company is sponsoring an immigrant for employment, that company must show that it has sufficient ability to pay the worker. IRS information on a taxpayer's income and the status of a taxpayer's account is relevant and useful to the adjudicator's decision on the ability to pay, according to CIS officials. In the case of a nonworker petition (e.g. a relative), such as with the Affidavit of Support (I-864) that accompanies forms such as the Application to Register Permanent Status or Adjust Status (I-485)[15], the sponsor must provide evidence that his or her household income equals or exceeds 125 percent of the federal poverty line. Information on tax returns filed with IRS would show income levels and could be used to validate applicant-provided information. Legitimacy, in the case of worker petitions, refers to whether a sponsoring business or organization actually exists, has employees, and has real assets. IRS tax data could be used to verify these facts, according to CIS officials. In the case of nonworker petitions, legitimacy refers to the relationship between the sponsor and immigrant as being entered into in "good faith." For example, with the Petition to Remove the Conditions on Residence (I-751), which is based on an immigrant's marriage to a U.S. citizen or permanent resident, the immigrant must show evidence of that relationship through documents such as financial records including tax returns. IRS tax data could be used to help verify the marital status of individuals.

In the case of immigrants applying for citizenship, adjudicators also use a test of "good moral character" as one of the criteria in determining an immigrant's eligibility for citizenship. In testing for "good moral character," CIS asks such things as whether the applicant was ever imprisoned or failed to file a federal, state, or local tax return.

[15] The Application to Register Permanent Residence or Adjust Status form is used by a person in the U.S. to adjust their temporary immigration status to a permanent status or register for permanent residence.

Adjudicators said that having evidence directly from IRS on whether an immigrant answered the tax-related questions accurately would be very useful in their decision-making process.

Our analysis identified sponsors and immigrants that IRS classified as nonfilers and therefore may not meet immigration financial feasibility and legitimacy tests. In our nationwide selection submitted between 1997 and 2004, we found 67,949 of 413,723 (16 percent) businesses applying to sponsor immigrant workers did not file one or more tax returns, such as income or employment tax forms.[16] In addition, knowing that IRS had no record of receiving a tax return from 19,972 businesses that applied to CIS to sponsor immigrants would be relevant to adjudicators' decisions. Similarly, 112 of 475 (24 percent) businesses in our nonprobability sample for sponsorship of temporary, permanent, and religious workers from 2001 through 2003 did not file one or more tax returns, such as income or employment tax forms.

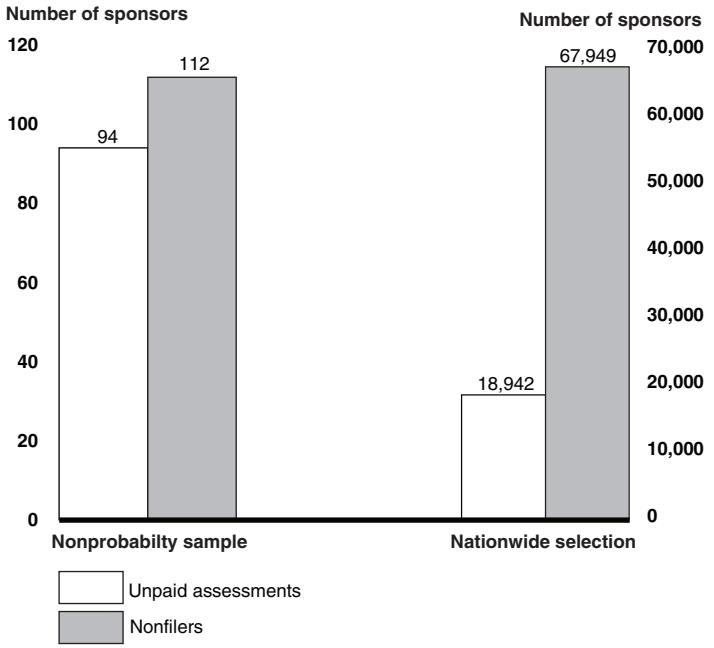
Of the individuals applying to sponsor family members' or workers' entry into or stay in the country, 791 of 51,169 individuals in our nationwide selection were in IRS's nonfiler database, meaning these sponsors did not file one or more returns during the period from 1997 through 2004. According to IRS, these individual sponsors are classified as nonfilers but may not be required to file for a variety of reasons, including insufficient income. This reason, however, may raise questions about whether the sponsor is able to meet CIS's financial feasibility and legitimacy tests. We also found that some individual immigrants applying to extend their stay were classified as nonfilers. We found that 25,662 of 2,009,046 individuals in our nationwide selection applying to CIS from 1997 through 2004 did not file income tax returns. Some of these individuals may not have been required to file.

Our analysis also identified business and individual sponsors that had unpaid assessments with IRS and therefore may not have met immigration's financial feasibility and legitimacy tests. Our nationwide results showed that 18,942 of 413,723 business (5

[16] IRS knows about these business nonfilers because of previously filed returns.

percent) sponsors applying to sponsor immigrants from 1997 through 2004 had unpaid assessments at the time of application; the assessments totaled $5.6 billion as of December 2003. We found that 94 of 475 (20 percent) businesses in our nonprobability sample applying to sponsor immigrants from 2001 through 2003 collectively had unpaid assessments at the time of application. The assessments totaled $39 million as of December 2003. CIS officials said IRS information on small businesses would be especially helpful in assessing whether small businesses have the necessary income or financial feasibility to support the workers. We identified instances in which businesses sponsored a number of workers over several years but had unpaid assessments to IRS and failed to file numerous tax forms. For example, one company sponsored more than 600 workers from 1997 through 2004 but is currently delinquent on 12 tax returns for $8 million and failed to file 3 income tax returns, employment tax returns, or both. We found that 6,894 business sponsors in our nationwide selection of immigration applications matched on IRS databases containing both information on unpaid assessments and nonfilers. Figures 3 and 4 show matching results identifying nonfilers and those with unpaid assessments from our nationwide selection and nonprobability sample.

Figure 3: Business Sponsors in GAO's Nonprobability Sample and the Nationwide Selection That May Not Have Met Financial Feasibility or Legitimacy Requirements



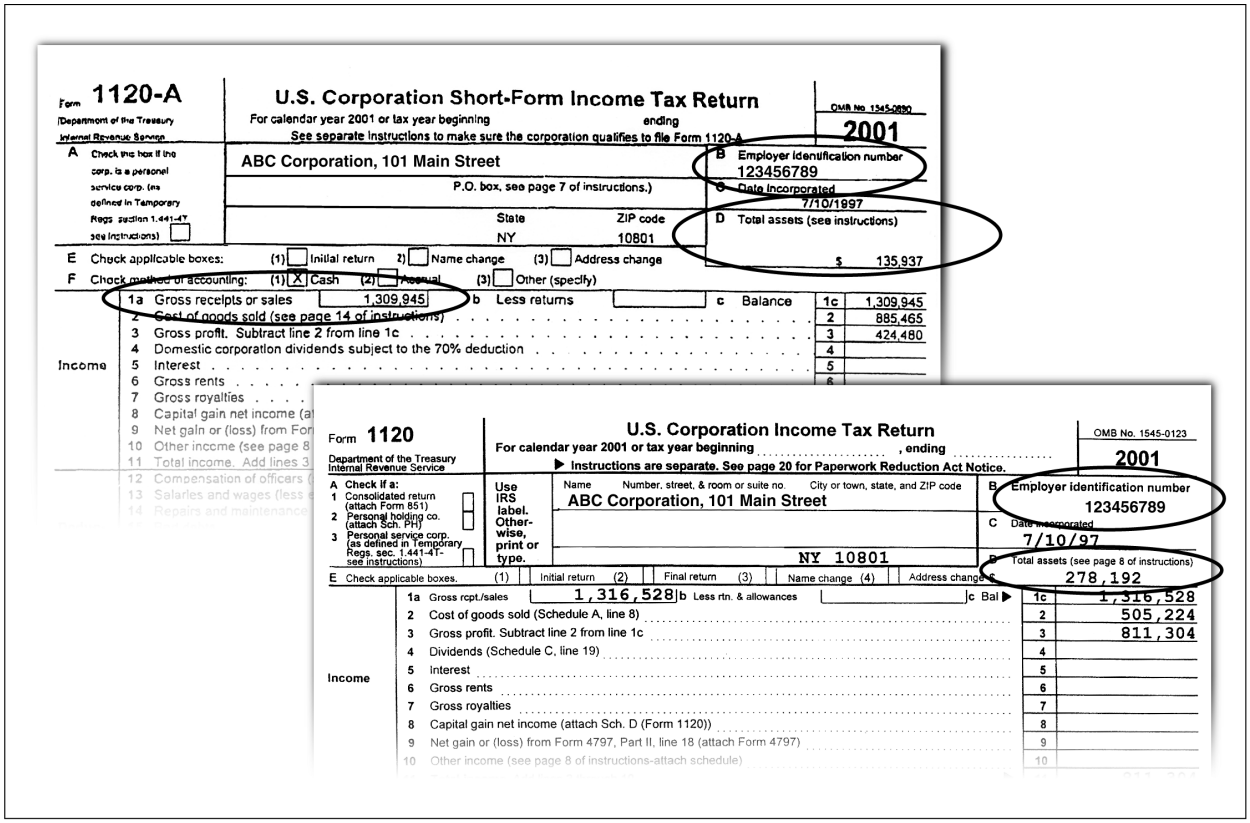
Source: GAO analysis.

Note: Data from immigration files was matched with IRS's Business Master File including the Accounts Receivable Database, which contains IRS data on unpaid assessments and the Nonfiler Database, which contains IRS data on businesses that should have filed a tax return but did not.
Source: GAO Analysis

Some individuals applying to sponsor immigrants also had unpaid assessments when they submitted applications to CIS. Of 51,169 individual sponsors in our nationwide selection for which CIS included SSNs, 889 had unpaid assessments when they applied to CIS and the assessments totaled $49.8 million as of December 2003. Fourteen of 273 individual sponsors in our nonprobability sample had unpaid assessments when they applied to CIS; the assessments totaled $84,761 as of December 2003. We also found individual immigrants applying to extend their stay had unpaid assessments at the time they applied to CIS. We found 38,877 of 2,009,046 individuals immigrants from our nationwide selection that applied to CIS from 1997 through 2004 had unpaid assessments at the time of application; the assessments totaled $328 million. Similarly, 20 of 804 individuals immigrants in our nonprobability sample applying to CIS from 2001 through 2003 had unpaid assessments at the time of application.

Immigration officials we spoke with at five field locations told us receiving and using IRS taxpayer information would be very valuable in helping them make better decisions for immigration requests and in investigating potential benefit fraud cases. Adjudicators expressed concerns about the legitimacy of tax returns they review when making immigration eligibility decisions and stated they would like to verify applicant/sponsor provided data–including copies of tax returns—against what is maintained in IRS's databases. They told us they have no way to check tax return information when they suspect applicants have submitted (1) bogus returns that can be printed from home computers using readily available tax preparation software and (2) returns that falsify so-called "IRS-certified tax returns." For example, adjudicators in the Vermont service center told us about an instance in which a company sponsoring multiple immigrants provided copies of tax returns that contained the same company name and EIN but reported differing income and assets for the same year (see fig. 5). Additionally, this company submitted the income tax return for U.S. corporations (IRS Form 1120) with one application and the short-form income tax return for U.S. corporations (IRS Form 1120-A) with the other application for the same tax year, even though it did not meet the IRS Form 1120-A's filing requirement of having gross receipts under $500,000.

Figure 5: One Business Sponsor Submits Different Tax Returns to CIS



Source: GAO presentation of CIS materials.

Note: We used a fictitious business name and EIN to protect the identity of the CIS applicant.

CIS Fraud Detection Unit (FDU) officials begin an investigation when they notice significant trends among a certain class of sponsors, immigrants, or both, such as certain temporary worker sponsors submitting inflated tax returns to demonstrate financial feasibility.[17] Currently, FDUs verify self-reported data through third party sources, such as a private sector company that taps into state-level data to verify the legitimacy of a company, and state data on company balance sheets. Obtaining these types of data is a time-consuming process for CIS fraud staff and the results are questionable, according to officials we spoke with at the California and Texas Service Centers. FDU officials said that IRS taxpayer information would be more helpful for verification purposes because (1) they could determine directly if the sponsor and immigrant provided the same information to IRS that they did to CIS and that it was accurate, (2) they believed they

[17] An alien convicted of an "aggravated felony" such as tax evasion in which the revenue loss to the government exceeds $200,000 as defined in 8 U.S.C.1101(a)(43), is deportable.

would be able to obtain IRS data quicker, and (3) IRS data would be more reliable than the self-reported and third-party data. However, FDU officials explained they have not pursued obtaining this information from IRS due to I.R.C. Section 6103's restrictions.

CIS May Benefit from Using IRS Data to Make More Timely Immigration Eligibility Decisions

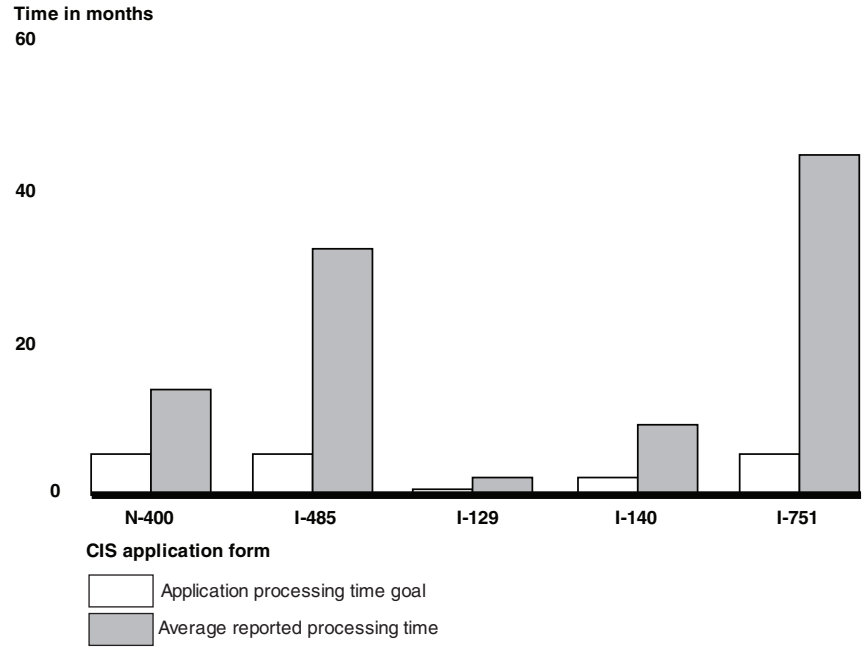
Both the adjudicator and fraud staff at the five locations we visited said that access to IRS taxpayer data could also improve the efficiency of making benefit decisions because it would result in reduced decision-making time and decreased rework/follow-up work.[18] More efficient benefit decisions have the potential to help CIS address application backlogs. For example, adjudicators said that if they could match applicant data against IRS data early in the review process, they would spend less time researching and following up on the validity of those data (e.g., they would send fewer requests for evidence [RFE] to the applicant). According to adjudicators, it could take as long as 12 weeks to receive responses from applicants for a certified IRS tax return, during which time, the application file sits on a "suspense" shelf, thereby extending the application processing time. Due to this time gap, in certain cases, background checks must be redone, which further lengthens the application processing time. Additionally, as we reported in May 2001,[19] CIS officials said that lengthy processing times have resulted in increased public inquiries on pending cases, which, in turn, has caused CIS to shift resources away from processing cases to responding to inquiries. As a result, the time to process applications have further increased.

[18] Additionally, we and other agencies have found, and staff at some of the field locations we visited agreed, that access to IRS taxpayer information may also tangentially aid CIS in its homeland security efforts. GAO and the Department of Justice's Office of Inspector General have identified weaknesses in CIS locator information for immigrants. For example, in November 2002, GAO reported that CIS investigators determined that CIS's address information was inaccurate for 45 immigrants who may have known some of the terrorists responsible for the September 11, 2001 terrorist attacks (GAO-03-188).

[19] U.S. General Accounting Office, *Immigration Benefits: Several Factors Impede Timeliness of Application Processing*, GAO-01-488 (Washington, D.C.: May 4, 2001).

As we reported in January 2004,[20] CIS used $80 million in appropriated funds annually in fiscal years 2002 and 2003 for the President's backlog initiative, a 5-year effort with a goal to achieve a 6-month average processing time per application, and will continue to use $80 million of its appropriations through fiscal year 2006 for the initiative. Figures 6 and 7 show CIS's application processing times and its backlog of pending applications, respectively.

Figure 6: CIS Application Processing Time Goals and Average Reported Processing Time for Fiscal Year 2003

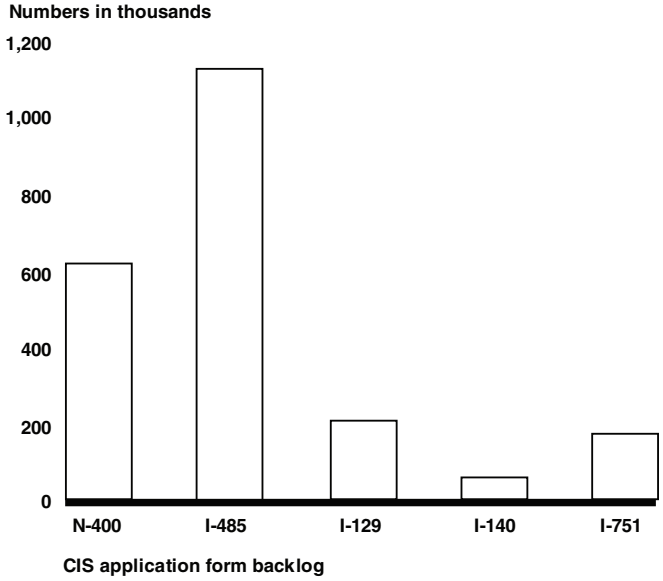


Source: GAO.

Notes: Average reported processing time projected as of October 30, 2003. Applications forms are described in appendix I.

[20] U.S. General Accounting Office, *Immigration Application Fees: Current Fees Are Not Sufficient to Fund U.S. Citizenship and Immigration Services' Operations*, GAO-04-309R (Washington, D.C: Jan. 5, 2004).

Figure 7: CIS Application Backlogs - End of Fiscal Year 2003



Source: CIS's Performance Analysis System.

Note: Applications forms are described in Appendix I.

Sharing Data Presents Challenges

While data sharing may be beneficial for IRS and CIS, CIS, and to a lesser extent, IRS, face significant challenges for establishing a data sharing relationship. CIS must address a number of technological challenges in order to lay the foundation that would enable data sharing to take place efficiently and effectively. For example, IRS and CIS currently use different identifiers to track individuals, so their systems may not interact with each other, automate different pieces of data, and face concerns regarding maintaining the confidentiality of electronically shared immigration and taxpayer data. IRS and CIS have two options for overcoming the legal challenge and accessing information for benefit determination purposes: use the existing I.R.C. Section 6103 taxpayer consent authority or seek a legislative change to I.R.C. Section 6103. Finally, both IRS and CIS need to further evaluate data-sharing options and their related costs to determine whether such a relationship could be cost beneficial.

CIS Faces a Wide Range of Technological Challenges

Although CIS and IRS may benefit from data sharing, CIS faces a wide range of technological challenges that must be overcome in order to lay the groundwork that would enable data sharing to take place between the two agencies.

- **CIS does not maintain any automated financial data on applicants.** Although CIS automates certain personal information from benefit applications, such as an individual's name and alien registration number, it does not automate any financial data that are reported on the benefit application or in accompanying documents such as tax returns.
- **CIS locations automate data inconsistently.** Although CIS service centers have servicewide automated case management and tracking systems for the applications they process, the CIS district offices do not. Instead, most applications are processed manually at the district offices. Plans are underway to have a nationwide system in place for the districts by the end of fiscal year 2006.
- **CIS systems contain inaccurate data.** GAO and the Department of Justice's Justice's Office of Inspector General (OIG) have criticized CIS systems because they contain inaccurate data for identifying pieces of information (such as immigrants' addresses).
- **CIS databases could encounter interaction difficulties.** CIS uses immigrant registration numbers as tracking identifiers whereas IRS uses SSNs or EINs. Although CIS's systems capture SSNs/EINs if they are provided on applications, CIS does not require them to be entered into its systems. A little over 1 million of 4.5 million nationwide immigration records did not have SSN or EIN identifiers that could be matched against IRS's databases.

While I.R.C. Section 6103 Does Not Allow Data Sharing for Immigration Eligibility Decisions, CIS Has Options for Gaining Access to Taxpayer Information

Information May Be Disclosed with Taxpayer Consent

IRS cannot disclose taxpayer information to other federal agencies without specific statutory authorization. As previously mentioned, CIS is not authorized to directly receive taxpayer information for immigration decisions under I.R.C. Section 6103. However, individual taxpayers may authorize IRS to disclose their return information to agencies through written consent. Under I.R.C. Section 6103(c), a taxpayer may designate a third party to receive his or her tax return or return information from IRS. Examples of third-party entities to which IRS provides information pursuant to taxpayer-signed waivers include financial institutions (including the mortgage banking industry); colleges and universities; and various federal, state, and local governmental entities.

Using this authority however, CIS could require applicants to allow IRS to share personal and financial information with CIS. IRS already has a process in place to accomplish this through the use of several forms, such as IRS Form 4506, Request for Copy of Tax Return; IRS Form 4506-T, Request for Transcript of Tax Return; and IRS Form 8821, Tax Information Authorization. Form 4506 allows taxpayers to request that CIS receive copies of their tax returns (at a cost of $39 to the taxpayer per copy) directly from IRS. By signing form 4506-T, the taxpayer consents to another party, like CIS, receiving a tax return transcript, tax account transcript, information from Form W-2, Wage and Tax Statement, Form 1099 series information,[21] record of account, or verification of nonfiling directly from IRS, all at no charge to the taxpayer. Form 8821 allows a third party to inspect taxpayer information, receive taxpayer information, or both for specific tax matters listed on the form. This form is different from the others in that the authority expires upon written request from the taxpayer, whereas the other two authorities are one-time requests.

[21] One type Form 1099 is the Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-sharing Plans, IRAs, Insurance Contracts, etc.

Treasury and IRS's National Taxpayer Advocate[22] have expressed concern about the systematic use of taxpayer consent. Further, IRS's National Taxpayer Advocate suggests that taxpayer consents should be used in conjunction with pilot tests. A pilot test would help address whether the disclosure can result in substantial program benefits. For example, from October 2002 through March 2003, the Department of Education (Education) conducted a test in which the department electronically verified a select number of students' (or parents') tax returns instead of requesting hard copies of the returns. The students were asked to authorize IRS to release their tax information to their academic institutions via the Internet. After authorizing the release, IRS then sent the individuals' tax transcripts to the schools, which then resolved any inconsistencies between information on the tax transcripts and on financial aid applications. According to an Education official, the department received positive feedback from the participating schools and taxpayers.

However, using taxpayer consent may affect the taxpayer's right to privacy and IRS's implementation of I.R.C. Section 6103. The Joint Committee on Taxation and Treasury's Office of Tax Policy warn that the use of consents for programmatic governmental purposes potentially circumvents the general rule of taxpayer confidentiality because the taxpayer waives certain restrictions on agencies' use of the data. In addition, recordkeeping, reporting, and safeguard requirements do not apply to agencies that use taxpayer consent. Furthermore, IRS is not required to track taxpayer consent disclosures and, as a result, cannot report on how the return information is used or what safeguards are in place to protect the information. Finally, according to IRS officials, taxpayer consents can be costly and resource intensive to implement, primarily because the information has to be retrieved manually unless the taxpayer makes a request via telephone. IRS estimates that it receives more than 800,000 requests from taxpayers directing that their returns or return information be sent to a third party.

Changes to I.R.C. Section 6103 Could Enable CIS to Access IRS Taxpayer Information

[22] Internal Revenue Service, *National Taxpayer Advocate: 2003 Annual Report to Congress* (Washington,

Over the years a number of exceptions have gradually been added to I.R.C. Section 6103 that allow access to taxpayer information. In his March 10, 2004, testimony before the Subcommittee on Oversight, House Committee on Ways and Means, IRS Commissioner Mark Everson noted that IRS is broadly restricted under I.R.C. Section 6103 from sharing taxpayer information with third parties, including other government agencies, except in very limited circumstances. According to Treasury, the burden of supporting an exception to I.R.C. Section 6103 should be on the requesting agency, which should make the case for disclosure and provide assurances that the information will be safeguarded appropriately. Table 1 lists the criteria Treasury and IRS have applied when evaluating specific legislative proposals to amend I.R.C. Section 6103 for governmental disclosures.

Table 1: Criteria Applied by Treasury and IRS When Evaluating Specific Proposals for Governmental Disclosures

Criteria to be addressed by the requesting agency	Is the requesting information highly relevant to the program for which it is to be disclosed? Are there substantial program benefits to be derived from the requested information? Is the request narrowly tailored to the information actually necessary for the program? Is the same information reasonably available from another source?
Criteria to be addressed by the requesting agency and Treasury/IRS	Will the disclosure involve significant resource demands on IRS? Will the information continue to be treated confidentially within the agency to which it is disclosed, pursuant to standards prescribed by IRS? Other than I.R.C. Section 6103, are there any statutory impediments to implementation of the proposal?
Criteria to be addressed by Treasury/IRS	Will the disclosure have an adverse impact on tax compliance or tax administration? Will the disclosure implicate other sensitive privacy concerns?

Source: Office of Tax Policy, Department of the Treasury.

D.C.: Dec. 31, 2003).

Data-Sharing Costs Have Not Been Analyzed

Although the results of our matching of IRS and CIS data indicate that IRS and CIS may benefit from data sharing and verification, not all of the potential benefits likely would be realized and determining whether and how those benefits should be pursued also would depend on the cost of any data-sharing arrangements. Neither IRS nor CIS has documented benefits that may be gained from additional data sharing nor have they considered the cost that would be associated with implementing a data sharing arrangement. The cost of data sharing would depend on a variety of factors, such as whether CIS would match data from all benefit applications or some subset and whether the matching processes would be primarily manual or automated.

Although our work shows potential benefits to IRS and CIS from sharing data to enhance tax compliance and improve immigration eligibility decisions, not all of those benefits likely would be realized. For example, IRS is unable to pursue all of the current leads that it receives from existing data corroboration efforts, like document matching. Therefore, to the extent that obtaining and analyzing additional data from CIS developed more leads for possible enforcement actions, IRS likely would only be able to pursue some portion of those cases. Further, some of the apparent noncompliance may not be substantiated. For example, some of those who appear not to have filed tax returns may actually have been provided inaccurate information to CIS or otherwise not have a filing obligation. Of the taxpayers with delinquent taxes, some portion may already have entered into arrangements with IRS to pay the taxes and no further IRS action may be needed. From CIS's perspective, although we found that many businesses and individuals may not have filed tax returns or may be delinquent in paying taxes, some of these situations may not be significant enough to affect a CIS adjudicator's decision about their financial feasibility or legitimacy. For instance, some of the businesses applying to sponsor immigrant workers that have delinquent taxes may not owe enough to raise doubts about their ability to pay the worker. This may be especially true for larger businesses.

The Computer Matching and Privacy Protection Act of 1988 established requirements for agencies entering into routine data matching arrangements. In general, the act states that no matching program can be approved unless the agency has preformed a cost-benefit analysis for the proposed matching program that demonstrates the program is likely to be cost effective. Similarly, Treasury's criteria for considering whether a statutory change should be made for the sharing of tax data stress the importance of documenting whether a substantial benefit is likely and what the resource demands on IRS would be to support sharing the data. In the case of using taxpayer consents, Treasury suggests that agencies conduct pilot tests to support a business case for routine use of such consents.

Conclusions

Data sharing and verification between IRS and CIS appears to have the potential to better guide IRS's efforts to identify and correct noncompliance by taxpayers and result in more informed, accurate, and timely eligibility decisions by CIS adjudicators. Although IRS terminated its previous data sharing relationship with CIS for individual taxpayers because it judged that relationship not to be cost effective, our matching results show a greater potential for improving tax compliance for businesses than individuals. Our analysis also shows the potential to improve thousands of eligibility decisions if CIS has access to IRS data. However, more needs to be known about the extent to which the potential benefits likely would be realized if greater data sharing and verification were to occur and about the costs that would be incurred to implement a data-sharing effort. The benefits and costs are key, since both Congress and executive branch policies stress that sharing of data, and especially tax data, be well justified given concerns about possible adverse effects on tax compliance if the confidentiality of taxpayer's data is compromised.

Recommendation for Executive Action

The Secretary of Homeland Security and the Commissioner of Internal Revenue should assess the benefits that may be obtained and the costs that may be incurred to share information to enhance tax compliance and improve immigration eligibility decisions.

Agency Comments

Agency officials provided official oral comments and generally agreed with our recommendation. We talked with knowledgeable agency officials in IRS and CIS about our findings and recommendation. They had no major concerns with doing a study on the potential benefits and costs of establishing a data sharing relationship. IRS officials said I.R.C. 6103 prevents them from sharing taxpayer data with CIS for immigration eligibility decisions. IRS officials said the use of taxpayer consents would be an alternative but IRS would need to evaluate resource implications associated with processing the potentially large number of requests to verify taxpayers' status that could be associated with this proposal. CIS officials said they want to have IRS data to assist with immigration eligibility decisions but have not pursued obtaining IRS data because of the challenge they would face in trying to change I.R.C. Section 6103.

IRS's OVCI Program

The major points arising from our review of the information available on the taxpayers who came forward under the OVCI program and how they became noncompliant are as follows:

- Of the more than 1 million taxpayers that IRS estimated might be involved in an offshore scheme when it initiated the OVCI program, 861 taxpayers came forward. IRS officials say they have received more than $200 million in previously unpaid taxes, penalties, and interest from them. The taxpayers that applied for inclusion in the OVCI program were a diverse group, with wide variations in income, geographic location, and occupations, but some commonalities emerged for certain of these characteristics.

- OVCI applicants reported an annual original adjusted gross income (AGI)[23] ranging from over well over $500,000 to substantial net losses. Because these large outliers tend to skew the distribution of the income data, we used the population's annual median income to describe the population's income levels. OVCI applicants' annual median original AGI ranged from about $39,000 to about $52,000 for tax years 1999, 2000, and 2001. For 2001, the annual median adjustment to the original AGI of OVCI applicants who had not properly paid tax on money held offshore was about $23,000, and the median amount of tax, penalties, and interest was about $5,400.[24] The 81 applicants who composed the top 10 percent of originally reported AGIs in 2001 accounted for more than half of the total reported AGI amount.

- For each year covered by the OVCI program, more than half of the applicants had generally reported all of their income and paid taxes due—even on their offshore income—but had failed to disclose the existence of their foreign bank accounts as is required by Treasury. Their applications sought relief from FBAR penalties. IRS assesses FBAR penalties at a rate of up to 100 percent of the value of the assets in the account. These penalties were waived for OVCI applicants.

- OVCI applicants came from 47 states and the District of Columbia, but half of all applicants came from only 5 states: Florida, California, Connecticut, Texas, and New York.

[23] AGI is the amount of income the taxpayer reported minus certain income adjustments the taxpayer made on his or her tax return. The original AGI is the amount the taxpayer reported on his or her original federal tax return. In applying for the OVCI program, the taxpayer also supplied IRS with amended federal returns with an adjusted AGI.

[24] Taxpayers could apply for the OVCI program for any tax year after 1998 and could apply for one or more years. The overwhelming majority of applications fell in tax years 1999 through 2001, but some applicants applied for years prior to 1999 or subsequent to 2001. We only included those taxpayers who were noncompliant in 1999, 2000, or 2001, or in a combination of these years, in our analysis. We used the year 2001 in this testimony for all tables because it is the most recent year for which we have data and because the data in 2001 were fairly representative of each of the 3 years that we are reporting.

- OVCI applicants reported more than 200 occupations. We classified more than one-third of applicants' occupations as either retired individuals, business executives, or business/self-employed.

- Less than 16 percent of OVCI applicants said they used a promoter in 2001. Some promoters offered inexpensive, ready-made package deals that bundled a standardized set of services together while others offered more expensive, tailor-made arrangements.

- Some taxpayers appear to have deliberately hidden money offshore through fairly elaborate schemes involving, for instance, multiple offshore bank accounts. Other applicants appear have fallen into noncompliance inadvertently, for example, by inheriting money held in a foreign bank account.

We used IRS's OVCI database to develop a profile of the characteristics of the taxpayers that came forward under OVCI. Our information is limited to those taxpayers who voluntarily admitted they held offshore assets, so the information we are providing is not necessarily representative of any larger population of taxpayers who used offshore arrangements to avoid paying U.S. taxes. We limited our analysis to tax years 1999, 2000, and 2001 because the vast majority of the OVCI applicants applied for inclusion for these 3 tax years. IRS officials said they verified the accuracy of the data entered into the database, and we observed the verification process. We analyzed IRS's data reliability processes and verified some of the entry accuracy ourselves and as a result, we believe the data we are using are sufficiently reliable and useful for reporting on the characteristics of those who came forward under the OVCI program. In addition, we reviewed 35 case files judgmentally selected based on factors such as particularly high or low AGIs, high or low adjustments to original AGI, or high or low taxes, penalties, and interest owed to verify IRS's data entry and to obtain information about how taxpayers became noncompliant and about the promoters, if any, they used. In addition, we visited 25 promoter Web sites to gain a better understanding of the type and cost of the services they provide. The Web sites were judgmentally selected to ensure the sample included a

variety of geographic locations. We did our work at IRS's campus in Philadelphia and its National Office in Washington, D.C. We conducted our fieldwork for this portion of the testimony from January 2004 through June 2004. Appendix II provides more details on our methodology.

Background

Launched in January 2003, OVCI was an attempt to quickly bring taxpayers who were hiding funds offshore back into compliance while simultaneously gathering more information about those taxpayers as well as the promoters of these offshore arrangements. It is not illegal to hold money offshore. It is illegal, however, for a taxpayer to not disclose substantial offshore holdings including, if applicable, not reporting income earned in the U.S. and "hidden" through offshore arrangements and any income generated through them to IRS on a tax return. As an incentive to come forward, IRS said it would not impose the civil fraud penalty for filing a false tax return, the failure to file penalty, or any information return penalties for unreported or underreported income earned in 1 or more of the tax years ending after December 31, 1998. However, taxpayers were required to pay applicable back taxes, interest, and certain accuracy or delinquency penalties. In addition, Treasury agreed to waive the penalty associated with the failure to file a Report of Foreign Bank and Financial Accounts (FBAR penalties).[25] To be eligible for the OVCI program, applicants had to supply certain information about themselves, including

- personal information, such as their names, taxpayer identification numbers, current addresses and telephone numbers;

- copies of their original and amended federal income tax returns for tax periods ending after December 31, 1998; and

[25] Under the Bank Secrecy Act, U.S. residents or individuals in and doing business in the United States must file a report with Treasury if they have a financial account in a foreign country with a value of more than $10,000 at any time during the calendar year. Taxpayers comply with this requirement by noting the

- information on any related entities that the applicants caused to be involved in offshore tax avoidance.

In addition, taxpayers had to provide details on those who promoted or solicited the offshore financial arrangement. IRS is using this information to pursue promoters and to identify other clients who did not come forward under OVCI. Taxpayers were required to provide

- complete information about the promoter, including the promoter's name, address, and telephone number and any promotional materials that the taxpayer received;

- descriptions of offshore payment cards, foreign and domestic accounts of any kind, and foreign assets; and

- descriptions of any entities through which the taxpayer exercised control over foreign funds, assets, or investments.

IRS used this documentation to build a database of descriptive information about the OVCI applicants and any promoters of offshore schemes that they used. IRS plans to eventually utilize the data to analyze taxpayer characteristics and then use this information to try to make taxpayer compliance programs more effective. Specifically the database contains information on (1) the taxpayer, such as income, citizenship status, occupation, and compliance history, and (2) the promoters of offshore tax schemes, such as how much the promoter charged the taxpayer and the country in which the promotion was located.

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account on their tax return and by filing Form 90-22.1. Willfully failing to file an FBAR report can be punished under both civil and criminal law.

OVCI Applicants Were a Diverse Group, but Some Common Characteristics Emerged

When it initiated the OVCI program, IRS estimated that 1 million taxpayers might be involved in offshore schemes covered by the program; 861 taxpayers came forward under OVCI.[26] IRS required taxpayers to calculate the additional tax they owed and remit that amount with their OVCI application. IRS has received more than $200 million from taxpayers. IRS has verified through audits that $140 million of that amount was properly due and is continuing to audit the remainder. In some ways the taxpayers in the OVCI program were a diverse group. Applicants reported widely varying annual median original AGIs in 1999, 2000, and 2001. The applicants were geographically dispersed across the country and were involved in more than 200 occupations. Despite the diversity, OVCI applicants reported an annual median original AGI from approximately $39,000 in tax year 2001 to $52,000 in tax year 2000; half came from five states; and about a third were retired individuals, business executives, or business/self-employed. In addition, less than 16 percent said they used a promoter to help them set up their offshore arrangements. Finally, more than half of OVCI applicants for each year generally had reported their income and paid taxes but had failed to disclose the existence of their foreign accounts.

OVCI Applicants' Income

For the 3 years of the OVCI program we reviewed, 1999 through 2001, OVCI applicants reported an annual original AGI ranging from well over $500,000 to substantial net losses. Because these large outliers tend to skew the distribution of the income data, we believe

[26] IRS has previously reported that 1,321 taxpayers applied to the OVCI program. This figure includes 400 entities that were set up by applicants to handle their offshore funds. To avoid double counting, we excluded these cases from our audit. We also excluded 49 applicants because they did not meet program requirements and 16 applicants that applied for tax years outside the scope of our audit, that is either before 1999 or after 200l. As a result, we identified 861 unique, individual taxpayers who applied to the OVCI program. IRS has also previously reported that it had received $200 million for all years while the database showed that only $140 million had been collected. IRS officials said it recorded in the database only those amounts that it had finished auditing and will enter the additional money received as it completes audits of more OVCI applicants. In addition, much of the money IRS received from OVCI applicants was for tax years either before 1999 or after 2001.

the most representative method of describing the "average" applicant is by using the population's annual median income, that is, the point in the income distribution where half of the applicants fall above that point and half fall below that point, rather than the mean AGI. As shown in table 2, the median original AGI of applicants was from $38,761 in tax year 2001 to $51,663 in tax year 2000. Appendix III contains more taxpayer income information.

Table 2: OVCI Applicants' Original AGI Statistics, Tax Years 1999–2001

		Original AGI			
Tax year	Number of applicants	Mean	10th percentile[a]	Median	90th percentile[b]
1999	806	$332,443	$0	$49,469	$545,196
2000	817	1,191,997	0	51,663	583,188
2001	808	242,515	0	38,761	582,593

Source: GAO analysis of IRS data.

[a] The 10th percentile represents those taxpayers who were in the bottom ten percent of the distribution of the original AGI. Due to the number of taxpayers who reported negative original AGIs or were nonfilers, the value for the10th percentile was zero in all three years we reviewed.

[b] The 90th percentile represents those taxpayers who were in the top ten percent of the distribution of the original AGI.

Within the OVCI population, there were three distinct types of taxpayers:

- Those who had filed their tax returns but omitted their foreign financial assets.
- Those who failed to file tax returns for 1 or more of the years covered by the OVCI program.
- Those who filed returns each year and included their offshore holdings in their reported income but failed to meet their FBAR reporting requirements.

As shown in table 3, the taxpayers in these groups varied in their reported median original AGI; adjustment to original AGI; and taxes, penalties, and interest assessed. In the table, the nonfilers' median original AGI is shown as zero because, according to an IRS official, they did not file tax returns, even though they had taxable income offshore. An IRS official said that for those applying to the program for relief from FBAR penalties,

the data show an original AGI because they generally reported all of their income and paid taxes due, but had failed to disclose the existence of their foreign bank accounts.

Table 3: OVCI Applicants' Income and Amount Owed for Tax Year 2001

Population	Number	Median original AGI for 2001	Median adjustment to original AGI	Median additional tax owed[a]	Median penalties assessed	Median interest owed
Filed federal tax returns but omitted foreign assets	326	$55,869	$20,460	$4,289	$523	$263
Nonfilers	24	0	82,561	7,573	2,431	860
Filers and nonfilers combined	**350**	**$49,303**	**$22,951**	**$4,401**	**$657**	**$301**
Filed returns but failed to meet FBAR requirements	458	$31,667	$0	$0	$0	$0
Total	**808**	**$38,761**	**$0**	**$0**	**$0**	**$0**

Source: GAO analysis of IRS data.
[a]These figures represent the median for the amount IRS has verified through audits that taxpayers owed IRS. As IRS continues to conduct audits of OVCI taxpayers, the median may rise or fall somewhat.

For each of the 3 years of the OVCI program that we reviewed, more than half of the applicants to the OVCI program applied to get relief from FBAR penalties. This is a substantial relief for taxpayers because an IRS official told us that IRS can assess FBAR penalties at a rate of up to 100 percent of the value of the assets in the account.

A few individuals with substantial offshore holdings accounted for a large percentage of the original AGI reported. For tax year 2001, the 81 applicants with the top 10 percent of originally reported AGIs accounted for more than half of the total reported AGI amount.

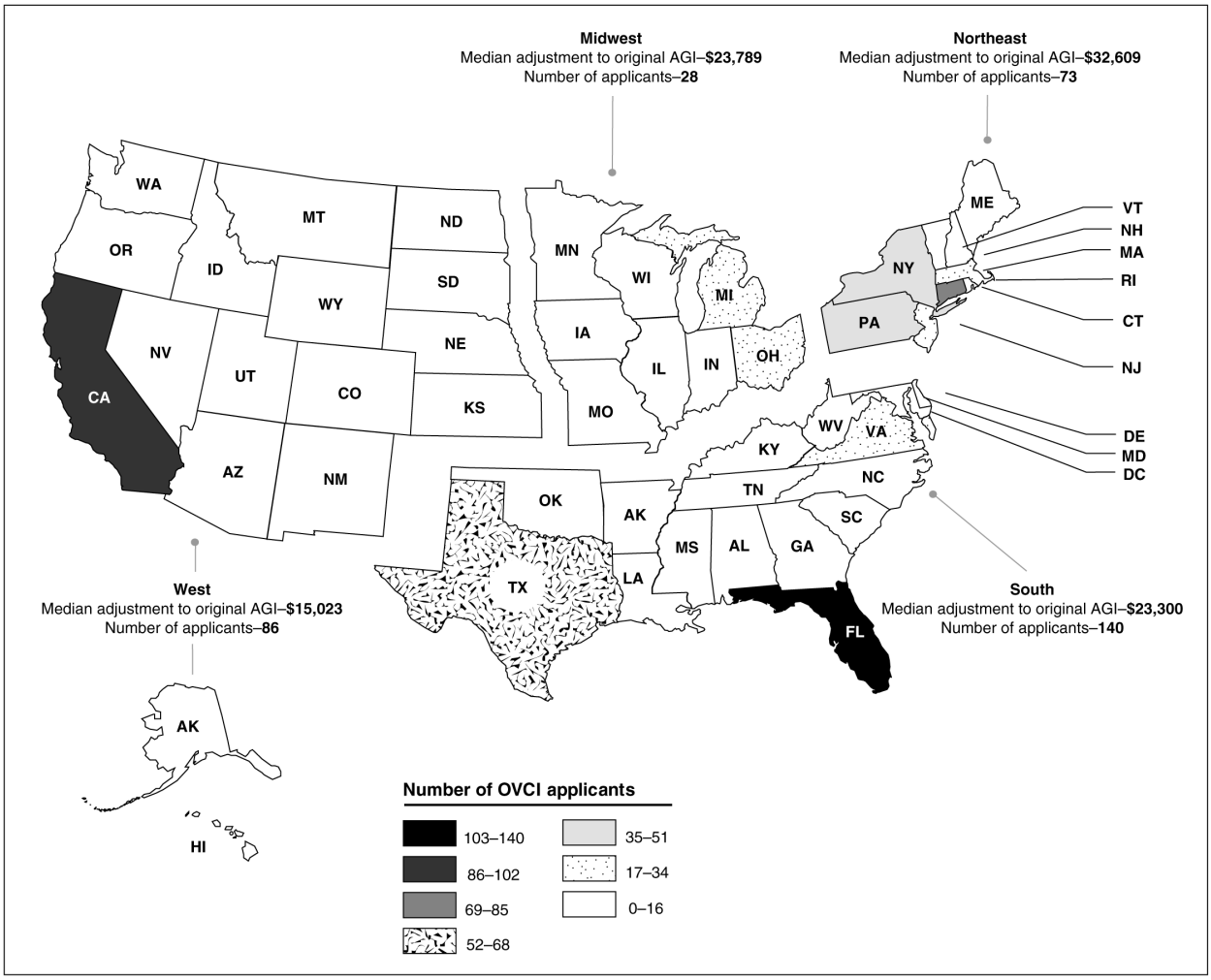
OVCI Applicants' Geographic Characteristics

Taxpayers from 47 states and the District of Columbia applied for inclusion in the OVCI program in at least 1 of the 3 years of the program (see app. IV for more geographic information about the applicants to the OVCI program). In tax year 2001, applicants for whom we have data were most commonly from the South (43 percent), but about 22 percent of all applicants came from the Northeast and more than 26 percent came from the West. The Midwest accounted for the fewest number of applicants (about 9 percent).[27] However, half of all applicants came from only 5 states (Florida, California, Connecticut, Texas, and New York).[28] Three states had no taxpayers apply to the OVCI program. As shown in figure 8, median adjustment to original AGI for taxpayers who filed tax returns but omitted foreign assets or were nonfilers ranged from a low of about $15,000 in the West to a high of about $32,500 in the Northeast.

[27] A small number of taxpayers who applied to the OVCI program lived outside of the United States or in Puerto Rico. We are not disclosing any specific information about these taxpayers due to concerns over the information being used to identify the taxpayers.

[28] These states accounted for about one-third of all individual income tax returns filed in tax year 2003, indicating that they accounted for a higher concentration of OVCI applicants than would be explained by the number of tax returns filed from those states.

Figure 8: OVCI Applicants' States of Residence and Regional Breakout of the Median Adjustment to Original AGI for Non-FBAR applicants, Tax Year 2001



Source: GAO.

OVCI Applicants' Occupations

Applicants listed over 200 occupations on their federal tax returns, including accountants, members of the clergy, builders, physicians, and teachers, so we grouped the applicants' professions into 18 categories in order to better analyze them. For all 3 years, the most common professions of applicants to the OVCI program were retired individuals, business executives, and business/self-employed. Table 4 provides information on taxpayers' occupations and the associated AGI information for 2001.

Table 4: Individual OVCI Applicants' Profession, Median Original AGI, and Median Adjustment to Original AGI for Tax Year 2001 (Filers and Nonfilers but not FBAR applicants)

Profession	Applicants	Median original AGI	Median adjustment to original AGI
Retired	52	$43,881	$25,074
Executive	47	158,183	23,302
Business/self employed	32	73,134	22,006
Banking/ finance/ insurance[b]	27	3,596	22,951
Sales	22	91,000	24,329
Medical profession	22	95,928	8,397
Engineer	21	55,941	5,722
Other	20	23,286	15,197
Analyst/consultant	11	49,892	20,277
Computer/ technology	11	39,348	6,461
Attorney	9	137,661	23,302
Administrative[a]	8	105,804	11,028
Building trades	5	22,684	6,569
Education[c]	5	0	36,364
Scientist	5	26,599	8,538
Real estate	4	1,100,241	291,871
Pilot	4	123,705	14,566
Arts	3	123,945	70,799
Missing	42	0	54,094
Total[e]	**350**	**$49,598**	**$23,124**

Source: GAO analysis of IRS data.

[a] A small number of taxpayers who applied to the OVCI program listed their occupations as secretary but their incomes were each in excess of $1 million for each of the years 1999, 2000, and 2001.

[b] Although a large number of applicants were from the banking/finance/insurance sector, a large number of these applicants reported large losses on their tax returns. As a result, the median original AGI was relatively low.

[c] Some occupations had more nonfilers apply to the OVCI program than filers, so for these cases the median original AGI was zero.

[d] Seven applicants were identified as "deceased", and we included these people in the "other" category.

[e] We did not include FBAR applicants in this table because, according to IRS officials, there is no adjustment to the FBAR applicants' original AGI. These applicants generally reported their offshore holdings on their original federal tax returns and incurred no additional taxes or interest owed. Because these applicants made up more than half of all applicants, if we included them in the table, the median adjustment to original AGI, taxes, and interest would all be zero.

Few Applicants Said They Used Promoters

Less than 16 percent of all OVCI applicants said they used a promoter.[29] The services provided by promoters ranged from simple incorporation offshore to more elaborate schemes involving such things as bogus charities.

The relatively small percentage of OVCI applicants reporting use of a promoter may be due in part to the definition of a promoter used in the OVCI instructions. IRS defined a promoter as any party who "promoted or solicited the taxpayer's use of offshore payment cards or offshore financial arrangements." Some taxpayers may have learned about offshore arrangements from friends, an attorney, a paid preparer, or others. However, IRS did not record detailed information in the OVCI database about how the taxpayers learned about the offshore arrangement and therefore we do not know the extent to which taxpayers learned of the offshore arrangement from these individuals. If OVCI applicants did learn of the arrangements from these individuals, they may not have considered them to be promoters under IRS's promoter definition, particularly if they did not feel that the individual actively sought them out to encourage or convince them to use an offshore arrangement. IRS did record information on whether the OVCI applicants used a paid preparer. For example, 326 of the 350 tax year 2001 OVCI applicants, or 93 percent, said that a paid preparer prepared their original tax return.

Recognizing that the data may change as IRS completes additional investigations on promoters, taxpayers who said they used a promoter had similar median original AGIs to those who reported not using a promoter. For example, in 2001, those who said they used a promoter reported a median original AGI of about $41,000, while those applicants who said they did not use a promoter reported a median original AGI of about $39,000.

[29] We cannot be precise about the number of taxpayers who said they used a promoter. IRS officials said that they had identified 269 potential promoters from 140 participants. IRS has opened investigations into 53 but does not have sufficient information yet on the remainder to conclude whether they are bona fide promoters. In addition, IRS compiled its statistics on the number of taxpayers and associated business entities that identified promoters—140—but not the number of unique taxpayers who identified promoters.

For those taxpayers who said they used a promoter, the fees they paid those promoters varied from nothing to a high of $85,000 for the promoter's services.

One possible explanation for the range in fees is that promoters offer different services, from off-the-rack services to custom-tailored arrangements. We visited 25 Web sites maintained by individuals or companies promoting offshore investments to gain a better understanding of the type and cost of the services they provide. The Web sites were judgmentally selected to ensure the sample included a variety of geographic locations. Of the 25 Web sites we visited, 19 offered off-the-shelf offshore companies or package deals. One company advertised that taxpayers could incorporate offshore within the next day by buying an off-the-shelf company, which is an existing company that has been set up by the promoter. At a cost of $1,500, the taxpayer would receive a package of services that would include an agent and local office, mail forwarding, nominee corporate directors and officers, offshore credit card applications, banking forms, and the payment of all government fees. These companies are not legitimate business enterprises. Instead, they exist strictly to provide taxpayers a way to quickly and easily move money offshore and repatriate it without declaring that money to IRS.

Several taxpayers who used promoters of this type to avoid paying taxes appeared to be scammed themselves. For example:

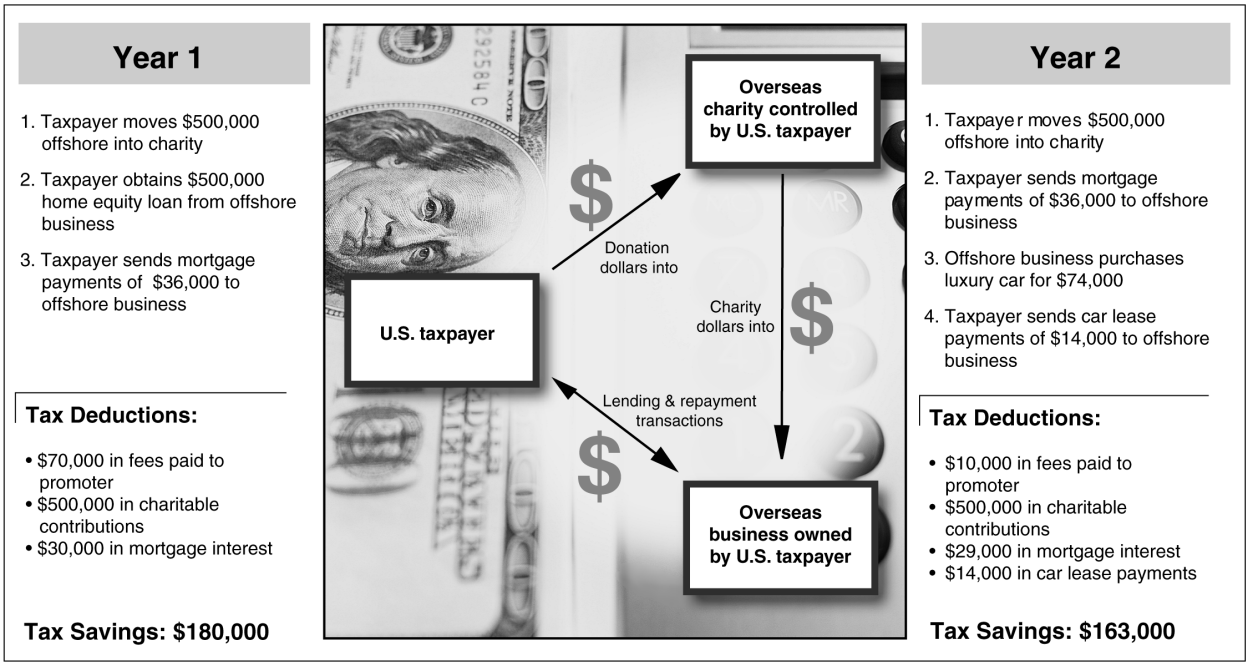
- One taxpayer was persuaded by a promoter to create an offshore corporation. The taxpayer also opened an offshore bank account and gave the promoter over $50,000 in cash to deposit into the account. The promoter told the taxpayer that the money was stolen before it was ever deposited in the account, leaving the taxpayer with practically nothing.

- Another taxpayer invested over $30,000 in an offshore investment opportunity that promised a return of 20 percent per year. The taxpayer got the money he/she invested through credit card advances. The taxpayer received returns on the

investment for a while, but the payments soon stopped. The taxpayer said he/she still owes money on the credit cards.

Other promoters' schemes are more complicated and targeted toward wealthy taxpayers interested in avoiding taxes. Figure 9 is a hypothetical example based on an actual case of how a promoter can help taxpayers repeatedly send money offshore and repatriate it later, avoiding hundreds of thousands of dollars in taxes. We calculated the tax savings below using a popular tax software program.

Figure 9: Hypothetical Example of a Self-Employed Taxpayer Filing Singly and Filing a Schedule C (for Profit and Loss from a Sole Proprietorship Business)



Source: GAO representation of analysis of several OVCI cases and PhotoDisc, images.

In our hypothetical example, the self-employed taxpayer reports $3 million in annual business income on his Schedule C (the form attached to a tax return that is used to calculate profit or loss for a sole proprietor business). The first year, the taxpayer hires the promoter to set up an offshore scheme for a fee of $70,000 for financial planning services and tax preparation. The promoter creates a bogus offshore charity that actually has no charitable activity and a corollary offshore business entity. The taxpayer controls both organizations by sitting on the board of directors. The taxpayer then sends

money offshore, basically to himself, through a $500,000 "donation" to the offshore charity, which in turn sends the money to the offshore business entity. The offshore business entity then gives the taxpayer a $500,000 "home equity loan," which actually repatriates that amount to the taxpayer's domestic bank account. Throughout the year, the taxpayer sends monthly mortgage payments to the offshore business entity. The taxpayer can then deduct the promoter's fees as a business expense on his Schedule C and the charitable donation and mortgage interest as part of his itemized deductions on his Schedule A. These false deductions would reduce the taxpayer's tax liability from about $1.1 million to about $920,000, a savings of about $180,000.

In the second year, the promoter would charge our hypothetical taxpayer less—only $10,000 for tax preparation services. The taxpayer can send the $500,000, repatriated as a home equity loan, back to the offshore charity as a donation and continue to send mortgage payments offshore. In a new wrinkle, however, the offshore business entity has purchased a luxury automobile worth about $74,000 and leased it back to the taxpayer. The taxpayer would have use of the automobile and would send lease payments to the offshore business entity. On his tax return for the second year, the taxpayer can deduct his charitable contribution of $500,000, the interest on the home loan, the lease payments, and promoter fees as business expenses. These false deductions would reduce the taxpayer's taxes by about $163,000.

Therefore, in return for promoter fees of about $80,000, the taxpayer has avoided more than $340,000 in taxes in just these 2 years. The taxpayer received more than a 300 percent return on his money, a high return when compared with those on other traditional investments. In addition, the taxpayer receives a level of asset protection from potential creditors. If, at some time, creditors were to pursue the taxpayer to collect money, they may be unable to reach the assets because it would appear that his house is heavily mortgaged and that his expensive car is leased.

There are many more options for transferring money offshore and then repatriating it. For example, according to some promoters' Web sites, an offshore charity could award a

"scholarship" to the taxpayer's child to defray college expenses, or a business entity could provide administration services such as bookkeeping for the taxpayer. An IRS official conservatively estimated that one promoter of this type of scheme has cost the U.S. Treasury about $100 million in tax revenues.

Some Taxpayers' Noncompliance Appears Deliberate, Others Appears Inadvertent

Some taxpayers went to great lengths to establish and maintain offshore bank accounts and credit cards, creating the appearance that the noncompliance was deliberate,[30] whereas others appeared to be unaware of their U.S. tax obligations for foreign holdings. Deliberately noncompliant taxpayers would include some of the taxpayers who, as discussed earlier, used promoters and, for example, put funds into their offshore arrangements on a cash basis. Examples of other taxpayers who appear deliberately noncompliant include the following:

- A taxpayer who reported an original AGI of less than $20,000 on his/her federal tax return and claimed the Earned Income Tax Credit. This taxpayer's amended federal return showed income in 1 year of over $1 million and multiple foreign bank accounts. Before applying to the OVCI program, the taxpayer never paid any tax on any income received. IRS told us that had this taxpayer not applied for inclusion in the program, it is doubtful the taxpayer's tax avoidance would have ever been discovered.

- A taxpayer who maintained multiple bank accounts in different foreign countries. Each of the accounts contained funds invested in various financial instruments. The taxpayer traveled abroad and physically brought the money back into the United States.

[30] IRS rejected OVCI applicants who did not divulge the entirety of their scheme to avoid paying U.S. taxes. IRS told us that 49 applicants were rejected for that reason, and those cases were sent to IRS's Criminal Investigation Unit.

- A taxpayer who initially hired attorneys to create an offshore entity, and then used wire transfers and a mailbox abroad to route after-tax income from the United States to the foreign account for deposit. The taxpayer did not pay U.S. taxes on the interest income earned on these funds and claims to have not repatriated any of the foreign deposits during that time.

In an increasingly global and mobile world, taxpayers may hold foreign accounts and credit cards for a number of legitimate reasons. For example, taxpayers may have worked or traveled overseas extensively or inherited money from a foreign relative. Some taxpayers in these situations told IRS that they were unaware they had to pay U.S. taxes on this income and that their noncompliance was unintentional. For example:

- One taxpayer said that he/she had made a personal loan overseas and had not reported the interest income of about $10,000 he/she had received. Because the taxpayer held about 1 percent of his/her original AGI offshore and had paid taxes on all other income, it appears that this taxpayer may not have intentionally avoided his/her tax obligation.

- Another taxpayer along with a sibling invested an inheritance in a joint account in a foreign country for convenience. The taxpayer realized, when the OVCI program was announced, that the interest income on this account should have been reported. He/she reported, through the OVCI program, interest income of less than $2,000 over the years covered by OVCI. The taxpayer paid taxes on all other domestic income during this time and appeared to have overlooked the interest income.

- A young taxpayer got a job overseas. The taxpayer did not believe he/she needed to file tax returns in the United States because he/she was paying income taxes in the country in which he/she was working. When the taxpayer found out that he/she was required to file in the United States, the taxpayer contacted IRS. The

taxpayer was eligible for the Foreign Tax Credit, which offsets some or all U.S. taxes owed. As a result, the U.S. tax obligation was less than $10,000 for all of the years covered by the OVCI program.

An IRS official told us that detecting offshore income would be particularly difficult without many of these taxpayers applying to the OVCI program. Typically, IRS compares taxpayers' information returns, such as the W-2 forms for wages or forms 1099 for interest or dividends, to their income tax returns to identify underrreported income or nonfilers. An IRS official said that since offshore entities, such as foreign banks, are generally not subject to U.S. information reporting requirements, identifying underreported foreign income would be difficult. For IRS to investigate the taxpayer's return beyond the documentation provided on income and various information returns would require investigating those entities and the accuracy of the transactions reported. Such investigations could be very labor intensive.

Concluding Observations

The diversity of the OVCI population indicates that multiple compliance strategies may be appropriate for addressing those taxpayers holding money offshore. For example, increased educational efforts might be effective for those who became noncompliant inadvertently or those who were unaware of the need to report their offshore holdings to IRS. For those taxpayers who deliberately held money offshore illegally to avoid paying taxes, investigation of promoters or others who may have assisted taxpayers may both help reduce the spread of evasion to other taxpayers and identify those already out of compliance for corrective action. However, because the median AGIs for OVCI participants were relatively modest and the additional tax, interest, and penalties collected to date have also been relatively modest, personnel-intensive investigations of individual cases who have hidden substantial amounts offshore could significantly reduce the net gain to Treasury from these cases. This puts a premium on IRS developing means to identify those cases that should be subjected to such investigations and, if possible, alternative compliance strategies for others.

Messrs. Chairman, this concludes my prepared statement. I would be happy to respond to any questions you or other Members of the committee may have at this time. For further information on this testimony, please contact Michael Brostek at (202 512-9110) or [brostekm@gao.gov]. Individuals making key contributions to this testimony include Susan Baker, Tom Bloom, Michelle Bowsky, Laura Czohara, Michele Fejfar, Jyoti Gupta, Signora May, Karen O'Conor, Amy Rosewarne, Jeff Schmerling, Tina Smith, Jonda Vanpelt, and Jim Ungvarsky.

Appendix I: Objectives, Scope, and Methodology

Our objectives were to determine (1) the extent to which IRS and CIS share and verify data for immigration eligibility decisions or taxpayer compliance purposes and (2) the benefits and challenges, if any, of increasing data sharing and verifying activities.

We performed our work at various IRS offices, including the Office of Governmental Liaison and Disclosure, the Office of Safeguards; the Office of Program, Evaluation, and Risk Analysis; and the Privacy Advocate's Office. Our work also included interviews with employees in IRS's Wage and Investment Operating Division and Small Business/Self Employed Operating Division, the Department of the Treasury's Office of Tax Policy and Office of Inspector General for Tax Administration, and program offices at CIS, and with CIS officials in selected service centers and district offices. We collected and analyzed information on the extent of data sharing and verifying activities between IRS and CIS from January 1997 through March 2004. To respond to your initial request on data sharing and verifying between IRS and selected agencies, we also interviewed Social Security Administration (SSA) officials and collected and analyzed information on data sharing and verifying between IRS and SSA. To illustrate a long-standing data sharing relationship, we summarized the IRS and SSA data sharing relationship in the background section.

To determine the extent to which IRS and CIS share and verify data for benefit decisions or taxpayer compliance, we interviewed IRS and CIS officials about the existence of a data sharing relationship. We identified the legislative and regulatory authorities that govern disclosure of personal and taxpayer information. Additionally, we identified the types of personal and financial information CIS and IRS maintain for immigration decisions and tax compliance, respectively.

To determine the benefits of increasing data sharing and verification activities, we collected and analyzed immigration and taxpayer information. We interviewed IRS and CIS officials to obtain views on possible impediments or missed opportunities to verify information to make better programmatic decisions, and reviewed existing studies or

reports on data verification activities. We determined what personal and financial information IRS collects but does not verify with CIS and why, and whether officials believe verification with immigration would be useful for tax compliance purposes. We determined what personal and financial information CIS receives but does not verify with IRS and why, and whether immigration officials believe verification with IRS would be useful for immigration eligibility decisions.

We used two sets of immigration data from CIS to match with IRS taxpayer data to determine the potential value for increased data sharing and matching. First, we used a nationwide selection of automated data on certain immigration applications: I-129 (Petition for a Nonimmigrant Worker), I-140 (Immigrant Petition for Alien Worker), and I-360 (Petition for Amerasian, Widow(er), or Special Immigrant[31]) submitted from January 1, 1997, through March 5, 2004, to CIS service centers for immigration benefits. We used only those applications in CIS's Computer Linked Application Information Management System, Version 3.0 (CLAIMS 3), a database containing nationwide data, that contained an individual's Social Security Number (SSN) or a business's Employer Identification Number (EIN) --3.4 million out of 4.5 million had usable SSNs or EINs-- for the matching process. We obtained automated data for those years because CIS's automated system had historical data not readily available in hard copy files. Because the nationwide selection did not include any financial information, we could not use it to determine whether CIS applicants reported the same income amounts to IRS as to CIS.

Second, we visited five CIS field locations and selected a nonprobability sample of 984 immigration files covering the period of 2001—2003 at four of the locations because they contained personal as well as financial information. These hard copy files were applications for citizenship, employment, and family-related immigration and change of immigration status applications. We used the hard copy immigration files to build an automated database of certain personal information, such as the individual's SSN or business's EIN and income reported to CIS. We obtained hard copy files for those years because the CIS offices we visited had immigration applications for those years onsite.

Immigration offices send older files to storage. Since each district and service center organized and stored its applications in a different way and immigration officials could not always provide an updated count of applications by form number, we developed an approach to selecting applications that included pulling approximately every 50th file in immigration file rooms. We generally selected approximately 50-75 files at each field location for the following forms: I-129 (Petition for a Nonimmigrant Worker); I-140 (Immigrant Petition for Alien Worker); N-400 (Application for Naturalization); I-751 (Petition to Remove the Conditions on Residence); I-360 (Petition for Amerasian, Widow(er), or Special Immigrant); and I-864 (Affidavit of Financial Support). We planned to select 50 files for Form I-829 (Petition by Entrepreneur to Remove Conditions) but only reviewed 12 files due to resource constraints and the voluminous nature of the application files. The matching results for our nonprobability sample included Form I-829s for a small number of individual immigrants who had unpaid assessments or were nonfilers and none for business or individual sponsors.

We matched the SSNs/EINs in our nationwide selection of immigration applications and our nonprobability sample of immigration applications with IRS's Business Master File (BMF) and Individual Master File (IMF) and other subsets such as the Revenue and Refunds Database. We identified immigration applicants/taxpayers that (1) matched with the IRS master files, (2) had unpaid assessments, (3) were nonfilers, (4) were businesses/organizations that had no record of tax activity in the last 5 years, and (5) did not match IRS master files. Additionally, to ensure we identified only business and organization sponsors whose EINs were unknown to IRS, we had IRS perform three additional matches using its BMF Taxpayer Identification Number Cross-Reference File, the BMF Entity File and the IMF Entity File.

We assessed the reliability of IRS's BMF and IMF data and the CIS's CLAIMS 3, a database containing nationwide data, by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that

[31] The I-360 applications in our sample were submitted by religious organizations sponsoring religious workers.

produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this testimony.

Our review was subject to some limitations. We relied on IRS officials to identify offices that use personal information because there is no central, coordinating point within IRS for receipt of this type of information. We relied on CIS officials to identify immigration forms they believed would most benefit from data sharing with IRS, and we relied on IRS and CIS officials' views on possible impediments or missed opportunities to verify information, any additional data sharing and verification needs, and the benefits of increased disclosure of taxpayer information. Because our sample of 984 hard copy applications at selected CIS field locations was not a probability sample, we cannot make inferences about the population of applications. In addition, because EINs/SSNs were only available for 3.4 million of the 4.5 million applications in our nationwide selection of automated applications, our findings from these records are not representative of the entire population. IRS identified the limitations of its database that affect our results. Immigration applicants/taxpayers who were in IRS's nonfiler database could include individuals who did not meet IRS filing requirements. Immigration applicants/taxpayers in IRS's unpaid assessment database may include taxpayers that have entered into an installment agreement, have proposed an offer-in-compromise or are in litigation with IRS about amounts due. Since IRS searched its tax data for the last 5 years (1999–2004) and we collected 7 years of immigration data (1997-2004), a small percentage of the businesses that submitted applications during 1997 and 1998 but are unknown to IRS could no longer be in operation.

We conducted our work from July 2003 through June 2004 in accordance with generally accepted government auditing standards.

Appendix II: Objectives, Scope, and Methodology for OVCI Program

Our two objectives were to provide information on (1) the characteristics of taxpayers who came forward under IRS's Offshore Voluntary Compliance Initiative (OVCI) program and (2) how those taxpayers became noncompliant.

To develop information on the characteristics of OVCI taxpayers, we relied on IRS's OVCI database. We used data from the applicants' original and amended federal tax returns, including adjusted gross income (AGI), taxes, penalties, and interest owed; the applicants' state and country of residence; and the applicants' occupational information. We also obtained information on applicants' use of promoters. Our information is limited to those taxpayers who voluntarily admitted they held offshore assets, so the information provided is not necessarily representative of any larger population of taxpayers who used offshore arrangements to avoid paying U.S. taxes. Of the 1,321 taxpayers who came forward under the OVCI program, 16 did not apply for relief for 1999, 2000, or 2001. An additional 400 were entities that were set up by and associated with applicants to handle the taxpayers' offshore funds. The tax liabilities, if any, of these entities would be reflected in the additional taxes, penalties, and interest of the individual taxpayers in IRS's OVCI database. In addition, IRS rejected 49 applicants for not divulging the entirety of their schemes. Therefore, the numbers we reported here were limited to the 861 applicants for whom we had data for 1 or more of the years 1999, 2000, and 2001.

To assess the reliability of the IRS data we present in this testimony, we reviewed IRS's data verification procedures. For example, according to a senior manager, all financial data entered into the OVCI database was compared to the taxpayer's account on IRS's Individual Master File. IRS also told us that after all data were entered, a manager rechecked each entry for errors. We reviewed a judgmental sample of 35 cases files based on factors such as particularly high or low AGIs, high or low adjustments to original AGI, or high or low taxes, penalties, or interest owed at IRS's campus in Philadelphia to compare the data in the applicant's files to what was transcribed in the

OVCI database. In addition, we analyzed IRS's data reliability processes and conducted our own limited data verification. We believe the data we used are sufficiently reliable and useful for reporting on the characteristics of those who came forward under the OVCI program.

To determine how OVCI applicants became noncompliant, we talked to IRS officials and obtained information on the taxpayers' circumstances while reviewing the 35 cases in Philadelphia, such as their reasons for noncompliance and their experiences with promoters, if any. To better understand taxpayers' use of promoters, we also visited 25 Web sites maintained by individuals or companies promoting offshore investments to gain a better understanding of the type and cost of the services they provide. The Web sites were judgmentally selected to ensure the sample included a variety of geographic locations. We also reviewed examples of intricate schemes employed by some OVCI applicants to avoid paying taxes by holding money offshore illegally to develop a hypothetical illustration of such schemes.

We did our work at IRS's campus in Philadelphia and its National Office in Washington, D.C. We conducted our fieldwork from January 2004 through June 2004 in accordance with generally accepted government auditing standards.

Appendix III – OVCI Applicant Income Information by Tax Year for 1999, 2000, and 2001

As shown in tables 5, 6, and 7, there are yearly variations in OVCI applicants' median original AGI; adjustment to original AGI; and the taxes, penalties, and interest.

In the tables, the nonfilers' median original AGI is shown as zero because they did not file tax returns, although according to an IRS official, they did illegally hide money offshore and incurred taxes, penalties, and interest. According to another IRS official, for those applying to the program for relief from Report of Foreign Bank and Financial Accounts (FBAR) penalties, the data show original AGIs because they generally reported all of their income and paid taxes due, but had failed to disclose the existence of their foreign bank accounts. There is no adjustment to original AGIs because they had already reported their offshore holdings on their original federal tax returns and, consequently, incurred no additional taxes or interest owed. In addition, the Department of the Treasury waived the FBAR penalties.

Table 5: OVCI Applicants' Income and Amounts Owed for Tax Year 1999

Population	Number	Median original AGI	Median adjustment to original AGI	Median additional tax owed[a]	Median penalties assessed	Median interest owed
Filers	323	$79,394	$24,914	$5,685	$800	$1,116
Nonfilers	21	0	67,086	3,011	1,178	1,243
FBAR	462	34,722	0	0	0	0
Total	**806**	**$49,469**	**$0**	**$0**	**$0**	**$0**

Source: GAO analysis of IRS data.

[a]These figures represent the median for the amount IRS has verified through audits that taxpayers owed IRS. As IRS continues to conduct audits of OVCI taxpayers, the median may rise or fall somewhat.

Table 6: OVCI Applicants' Income and Amounts Owed for Tax Year 2000

Population	Number	Median original AGI	Median adjustment to original AGI	Median additional tax owed[a]	Median penalties assessed	Median interest owed
Filers	331	$87,530	$25,664	$5,591	$674	$655
Nonfilers	27	0	71,782	7,288	1,810	1,295
FBAR	459	41,448	0	0	0	0
Total	**817**	**$51,663**	**$0**	**$0**	**$0**	**$0**

Source: GAO analysis of IRS data.

[a] These figures represent the median for the amount IRS has verified through audits that taxpayers owed IRS. As IRS continues to conduct audits of OVCI taxpayers, the median may rise or fall somewhat.

Table 7: OVCI Applicants' Income and Amounts Owed for Tax Year 2001

Population	Number	Median original AGI for 2001	Median adjustment to original AGI	Median additional tax owed[a]	Median penalties assessed	Median interest owed
Filers	326	$55,869	$20,460	$4,289	$523	$263
Nonfilers	24	0	82,561	7,573	2,431	860
FBAR	458	31,667	0	0	0	0
Total	**808**	**$38,761**	**$0**	**$0**	**$0**	**$0**

Source: GAO analysis of IRS data.

[a] These figures represent the median for the amount IRS has verified through audits that taxpayers owed IRS. As IRS continues to conduct audits of OVCI taxpayers, the median may rise or fall somewhat.

Appendix IV - OVCI Applicant Geographical Information by Tax Year for 1999, 2000, and 2001

Tables 8, 9, and 10 show the number and median original AGI of applicants to the OVCI program by state. In all 3 of the years shown, applicants from Florida, California, Connecticut, Texas, and New York make up half of all applicants to the OVCI program. In all 3 years, seven states had only one applicant to the OVCI program and at least three states had no applicants.

Table 8: State, Number of Applicants, and Original Median AGI for Tax Year 1999

State	Applicants	Median AGI
Florida	114	$51,318
California	101	64,590
Connecticut	87	30,354
Texas	58	45,868
New York	45	96,648
Pennsylvania	37	36,480
Ohio	22	41,891
Massachusetts	21	93,187
Michigan	20	63,212
Maryland	19	52,964
New Jersey	19	95,994
Arizona	18	66,831
Virginia	17	24,097
Illinois	16	118,621
South Carolina	15	79,394
Georgia	14	107,968
Colorado	12	46,407
North Carolina	12	59,901
Nevada	10	24,615
Oklahoma	10	770
Washington	9	26,546
Minnesota	8	119,810
Alabama	5	5,343
Indiana	5	86,853
Iowa	5	57,964
New Hampshire	5	17,699
Total[a]	**806**	**$49,469**

Source: GAO analysis of IRS data.

[a]Because few OVCI applicants resided in the following states, we are not disclosing specific information about them due to concerns that the information could be used to identify the taxpayers: Alaska, Arkansas, Delaware, District of Columbia, Hawaii, Idaho, Kansas, Kentucky, Louisiana, Maine, Mississippi,

Missouri, Montana, Nebraska, New Mexico, North Dakota, Oregon, Puerto Rico, Rhode Island, South Dakota, Tennessee, Utah, Vermont, West Virginia, Wisconsin, and Wyoming. Therefore, the totals do not reflect only numbers shown in the table.

Table 9: State, Number of Applicants, and Original Median AGI for Tax Year 2000

State	Applicants	Median AGI
Florida	115	$55,831
California	97	73,330
Connecticut	89	35,706
Texas	58	50,965
New York	47	132,642
Pennsylvania	39	37,332
Ohio	25	44,635
Massachusetts	22	95,317
Michigan	22	45,786
Arizona	19	93,711
New Jersey	19	101,675
Maryland	18	93,894
Illinois	16	82,666
South Carolina	16	81,730
Virginia	16	28,273
Georgia	14	155,554
North Carolina	13	51,123
Colorado	12	47,051
Oklahoma	11	8,570
Nevada	10	64,896
Washington	9	28,412
Minnesota	8	133,935
Alabama	5	42,908
Indiana	5	11,928
Iowa	5	84,034
New Hampshire	5	15,587
Total[a]	**817**	**$51,663**

Source: GAO analysis of IRS data.

[a] Because few OVCI applicants resided in the following states, we are not disclosing specific information about them due to concerns that the information could be used to identify the taxpayers: Alaska, Arkansas, Delaware, District of Columbia, Hawaii, Idaho, Kansas, Kentucky, Louisiana, Maine, Mississippi, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oregon, Puerto Rico, Rhode Island, South Dakota Tennessee, Utah, Vermont, West Virginia, Wisconsin, and Wyoming. Therefore, the totals do not reflect only numbers shown in the table.

Table 10: State, Number of Applicants, and Original Median AGI for Tax Year 2001

State	Applicants	Median AGI
Florida	115	$42,589
California	98	40,123
Connecticut	87	30,895
Texas	57	49,892
New York	47	112,299
Pennsylvania	39	19,880
Ohio	25	41,013
Massachusetts	21	112,460
New Jersey	20	55,463
Michigan	19	46,662
Illinois	18	76,783
Maryland	18	83,913
Arizona	17	48,917
Virginia	17	0
South Carolina	16	77,732
Georgia	13	83,423
North Carolina	13	50,509
Colorado	12	35,278
Oklahoma	11	1,232
Washington	10	33,495
Nevada	9	292
Minnesota	8	121,779
Alabama	5	30,130
Indiana	5	39,036
Iowa	5	68,655
New Hampshire	5	18,456
Total [a]	**808**	**$38,761**

Source: GAO analysis of IRS data.

[a]Because few OVCI applicants resided in the following states, we are not disclosing specific information about them due to concerns that the information could be used to identify the taxpayers: Alaska, Arkansas, Delaware, District of Columbia, Hawaii, Idaho, Kansas, Kentucky, Louisiana, Maine, Mississippi, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oregon, Puerto Rico, Rhode Island, South Dakota, Tennessee, Utah, Vermont, West Virginia, Wisconsin, and Wyoming. Therefore, the totals do not reflect only numbers shown in the table.

Appendix V – OVCI Applicant Occupational Information by Tax Year for 1999, 2000, and 2001

As shown in tables 11, 12, and 13, retired individuals account for the most applications in each year. The three most common occupations for each year are executives, business/self-employed individuals, and those involved in banking/finance/insurance.

Table 11: Individual OVCI Applicants' Professions, Numbers, Median Original AGIs, and Median Adjustments to Original AGI for Tax Year 1999 (Filers and Nonfilers but not FBAR applicants)

Profession	Number of applicants	Median original AGI	Median adjustment to original AGI
Retired	52	$61,543	$24,894
Executive	47	236,031	40,614
Business/self Employed	31	49,443	36,795
Banking/ finance/ insurance	26	48,778	37,748
Sales	22	105,251	40,586
Engineer	21	83,695	8,685
Medical profession	18	84,952	14,847
Analyst/consultant	12	44,699	6,852
Computer/ technology	10	53,118	6,887
Attorney	8	116,753	5,381
Administrative[a]	8	77,292	27,356
Scientist	5	12,832	7,801
Education[c]	5	0	9,266
Real estate	4	892,885	239,931
Pilot	4	115,778	75,128
Building trades	4	16,974	55,203
Arts	4	178,432	90,998
Other	19	13,515	28,245
Missing	44	28,562	42,663
Total[e]	**344**	**68,626**	**$28,432**

Source: GAO analysis of IRS data.

[a] A small number of taxpayers who applied to the OVCI program listed their occupations as secretary but their incomes were each in excess of $1 million for each of the years 1999, 2000, and 2001.
[b] Although a large number of applicants were from the banking/finance/insurance sector, a large number of these applicants reported large losses on their tax returns. As a result, the median original AGI was relatively low.
[c] Some occupations had more nonfilers apply to the OVCI program than filers, so for these cases the median original AGI was zero.
[d] Seven applicants were identified as "deceased," and we included these people in the "other" category.
[e] We did not include FBAR applicants in this table because, according to IRS officials, there is no adjustment to the FBAR applicants' original AGI. These applicants generally reported their offshore holdings on their original federal tax returns and incurred no additional taxes or interest owed. Because these applicants made up more than half of all applicants, if we included them in the table, the median adjustment to original AGI, taxes, and interest would all be zero.

Table 12: Individual OVCI Applicants' Professions, Numbers, Median Original AGIs, and Median Adjustments to Original AGI for Tax Year 2000 (Filers and Nonfilers but not FBAR applicants)

Profession	Number of applicants	Median original AGI	Median adjustment to original AGI
Retired	57	$71,939	$19,192
Executive	48	258,665	42,943
Business/self employed	33	74,387	38,576
Banking/ finance/ insurance	24	104,129	81,372
Sales	23	123,315	48,587
Medical profession	22	108,723	20,948
Engineer	21	66,765	7,529
Analyst/consultant	11	134,351	20,210
Computer/ technology	10	53,427	3,721
Administrative[a]	8	113,736	29,043
Attorney	8	161,341	13,095
Other	19	27,074	24,133
Education	6	20,945	23,886
Arts	5	62,631	59,230
Scientist	5	23,946	41,127
Building trades	4	15,689	32,313
Pilot	4	98,423	33,955
Real estate	4	1,133,868	198,818
Missing	46	735	36,873
Total[e]	**358**	**$41,448**	**$27,033**

Source: GAO analysis of IRS data

[a] A small number of taxpayers who applied to the OVCI program listed their occupations as secretary but their incomes were each in excess of $1 million for each of the years 1999, 2000, and 2001.

[b] Although a large number of applicants were from the banking/finance/insurance sector, a large number of these applicants reported large losses on their tax returns. As a result, the median original AGI was relatively low.

[c] Some occupations had more nonfilers apply to the OVCI program than filers, so for these cases the median original AGI was zero.

[d] Seven applicants were identified as "deceased," and we included these people in the "other" category.

[e] We did not include FBAR applicants in this table because, according to IRS officials, there is no adjustment to the FBAR applicants' original AGI. These applicants generally reported their offshore holdings on their original federal tax returns and incurred no additional taxes or interest owed. Because these applicants made up more than half of all applicants, if we included them in the table, the median adjustment to original AGI, taxes, and interest would all be zero.

Table 13: Individual OVCI Applicants' Professions, Numbers, Median Original AGIs, and Median Adjustments to Original AGI for Tax Year 2001 (Filers and Nonfilers but not FBAR applicants)

Profession	Number of applicants	Median original AGI	Median adjustment to original AGI
Retired	52	$43,881	$25,074
Executive	47	158,183	23,302
Business/self employed	32	73,134	22,006
Banking/ finance/ insurance	27	3,596	22,951
Sales	22	91,000	24,329
Medical profession	22	95,928	8,397
Engineer	21	55,941	5,722
Other	20	23,286	15,197
Analyst/consultant	11	49,892	20,277
Computer/ technology	11	39,348	6,461
Attorney	9	137,661	23,302
Administrative[a]	8	105,804	11,028
Building trades	5	22,684	6,569
Education[c]	5	0	36,364
Scientist	5	26,599	8,538
Real estate	4	1,100,241	291,871
Pilot	4	123,705	14,566
Arts	3	123,945	70,799
Missing	42	0	54,094
Total[e]	**350**	**$49,598**	**$23,124**

Source: GAO analysis of IRS data.

[a] A small number of taxpayers who applied to the OVCI program listed their occupations as secretary but their incomes were each in excess of $1 million for each of the years 1999, 2000, and 2001.

[b] Although a large number of applicants were from the banking/finance/insurance sector, a large number of these applicants reported large losses on their tax returns. As a result, the median original AGI was relatively low.

[c] Some occupations had more nonfilers apply to the OVCI program than filers, so for these cases the median original AGI was zero.

[d] Seven applicants were identified as "deceased," and we included these people in the "other" category.

[e] We did not include FBAR applicants in this table because, according to IRS officials, there is no adjustment to the FBAR applicants' original AGI. These applicants generally reported their offshore holdings on their original federal tax returns and incurred no additional taxes or interest owed. Because these applicants made up more than half of all applicants, if we included them in the table, the median adjustment to original AGI, taxes, and interest would all be zero.

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