

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Criminal Investigation Had Success With Ghost Employers, While Civil Enforcement Efforts Can Be Improved

April 12, 2024

Report Number: 2024-300-019

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document

HIGHLIGHTS: Criminal Investigation Had Success With Ghost Employers, While Civil Enforcement Efforts Can Be Improved

Final Audit Report issued on April 12, 2024

Report Number 2024-300-019

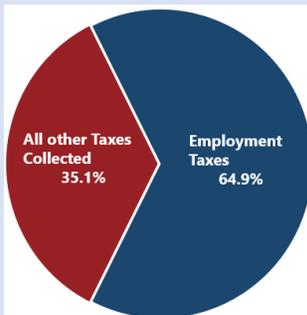
Why TIGTA Did This Audit

This audit was initiated to review the IRS's efforts for identifying employers that issue Forms W-2, *Wage and Tax Statement*, to their employees but do not submit the Forms W-2 to the Social Security Administration, do not file employment tax forms with the IRS, nor make any Federal tax deposits. The IRS refers to these types of employers as "Ghost Employers."

In June 2020, the IRS established the Ghost Employer Project to see if it could systemically identify this type of noncompliance with the tax laws. Our review was focused on evaluating the IRS's efforts to bring Ghost Employers into compliance with employment tax reporting and payment requirements. Prior to this initiative, the IRS had not attempted to detect Ghost Employers.

Impact on Tax Administration

In Fiscal Year 2022, \$1.42 trillion in tax receipts were employment taxes and \$1.76 trillion were Federal payroll income tax withholding, accounting for \$3.18 trillion (about 65 percent) of the \$4.9 trillion total tax receipts.



Bringing noncompliant Ghost Employers into compliance would reduce the Tax Gap associated with employment tax noncompliance.

What TIGTA Found

Criminal Investigation has a group that identifies Ghost Employer cases to pursue. From June 2018 to May 2023, Criminal Investigation identified 354 Ghost Employer leads. As of May 2023, 136 of the 354 leads were still active cases, 125 had been closed or were discontinued cases, and 93 cases had been adjudicated or were in the pipeline for potential prosecution. Of the adjudicated cases, 33 cases led to a successful prosecution with an average restitution amount of \$1.3 million.

As part of a separate effort, the Research, Applied Analytics, and Statistics (RAAS) function also initiated a project to identify Ghost Employers. Using software filters, RAAS identified over 162,000 potential Ghost Employers with an estimated liability of \$1.7 billion. From the potential Ghost Employers identified, 280 were randomly selected to be reviewed by the Small Business/Self-Employed Division Field Collection and Examination functions.

The RAAS division identified over **162K** potential Ghost Employers with **\$1.7B** in estimated tax liability.



Field Collection was the primary lead for the Ghost Employer Project with some entities referred to other examination functions and to Criminal Investigation. The IRS did not fully track the results of the 280 potential Ghost Employer cases that were selected by RAAS. Overall, our analysis of the 280 cases found only seven cases involving Ghost Employers. The project did result in 20 fraud referrals and identified the need to leverage an IRS application to improve the resources available to compliance employees working employment tax cases.

What TIGTA Recommended

TIGTA recommended that the IRS: 1) confer with RAAS for refinements to improve the identification of Ghost Employers; 2) improve the tracking of enforcement actions and results and ensure that cases which do not rise to the level of Criminal Investigation involvement are placed into other civil enforcement workstreams; 3) address the recommendations provided by the Ghost Employer Project team; and 4) remind Collection employees to refer Ghost Employer cases to Examination for potential assessment of civil fraud penalties.

IRS management agreed with all four recommendations and will be taking appropriate actions to address our recommendations. For example, RAAS will confer with SB/SE Division Collection to explore refinements to filters needed to improve the identification of Ghost Employers and the Director of Collection Policy will issue a reminder to Field Collection employees to consider referring these types of cases for potential civil fraud penalties.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20024

April 12, 2024

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in black ink, appearing to read "M. Weir", is positioned above the typed name.

FROM: Matthew A. Weir
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Criminal Investigation Had Success With Ghost Employers, While Civil Enforcement Efforts Can Be Improved
(Audit No.: 202230036)

This report presents the results of our review of the Internal Revenue Service's (IRS) efforts to bring Ghost Employers into compliance with employment tax reporting and payment requirements. This review was part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management and performance challenge of *Compliance and Enforcement*.

Management's complete response to the draft report is included as Appendix III. If you have any questions, please contact me or Phyllis Heald London, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations).

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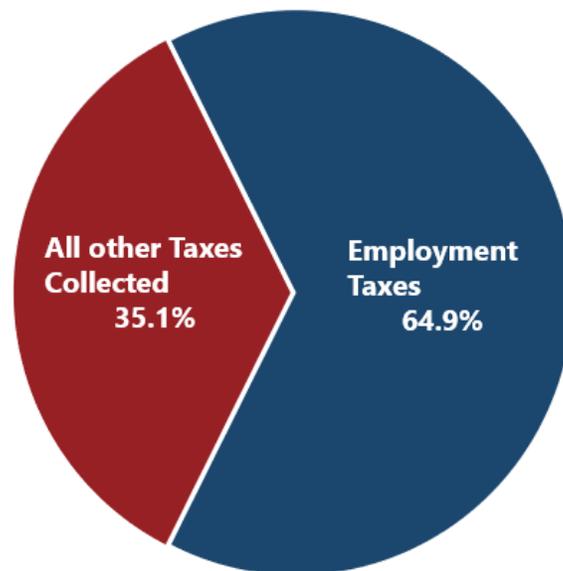
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Background

Employers are required to timely pay the income and employment taxes they withhold from employees.¹ Employment taxes include employee Federal Insurance Contributions Act taxes, Federal unemployment tax, and other taxes.² Employees' income tax withholdings and employment taxes withheld from their paycheck are referred to as "trust fund taxes" because employers hold the employee's taxes in a trust until the employer makes a Federal tax deposit in that amount.

Employment taxes are a substantial portion of Federal tax receipts. Figure 1 summarizes the percentage of employment taxes and individual income taxes withheld according to the Internal Revenue Service (IRS) Data Book, for Fiscal Year (FY) 2022.

Figure 1: Collections of Employment Taxes and Individual Income Taxes for FY 2022



Source: FY 2022 IRS Data Book published March 2023.

According to the FY 2022 IRS Data Book, Federal tax receipts totaled more than \$4.9 trillion for FY 2022. Of the \$4.9 trillion, employers were responsible for paying approximately \$1.42 trillion of employment taxes and \$1.76 trillion of Federal income tax withholding, for a total of \$3.18 trillion or about 65 percent of all Federal tax receipts.³

Employment tax noncompliance occurs for many reasons. Sometimes, employers experiencing economic strain unlawfully use the withheld taxes to fund operations. Other employers commit

¹ Internal Revenue Code §§ 3102 and 3402.

² Federal Insurance Contributions Act includes taxes for old-age survivors, disability, and hospital insurance. Employment tax also includes unemployment insurance under the Federal Unemployment Tax Act and railroad retirement taxes under the Railroad Retirement Tax Act.

³ The approximate \$1.42 trillion is the sum of Federal Insurance Contributions Act, Self-Employment, Unemployment, and Railroad Retirement Tax.

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employment tax fraud by willfully diverting the withheld taxes for their own personal benefit, such as for the purchase of non-business items (luxury items, vacations, and real estate).

Employment tax fraud includes cases involving paying employees in cash so there is no record of payments, filing false payroll tax returns, failing to file payroll tax returns, and pyramiding. Pyramiding occurs when individuals operate a business that withholds taxes from its employees but intentionally fails to pay over those tax payments to the IRS, quarter after quarter. These individuals might then start a new business and begin again the pattern of withholding taxes but not remitting those taxes to the IRS. Some individuals responsible for pyramiding might file accurate employment tax returns intending to comply with the law but then slip into noncompliance by not remitting those taxes.

More egregious conduct involves withholding taxes from employees but not filing employment tax returns with the IRS and not making Federal tax deposits with the intention of defrauding the Government and their employees. The absence of employment tax returns and Federal tax deposits make the identification of the noncompliance difficult. Nonfilers who do not file employment tax returns and collect employment taxes and intentionally do not remit them are referred to by the IRS as "Ghost Employers" because the employer is unlikely to appear on pertinent IRS records if no tax return has been filed.

Ghost Employers are difficult for the IRS to detect as the employer issues Forms W-2, *Wage and Tax Statement*, to its employees, but intentionally disregards the filing and remitting requirements, including but not limited to the failure to:

- File Form 941, *Employer's QUARTERLY Federal Tax Return*, with the IRS.
- Make Federal tax deposits.
- Submit Form W-2 information to the Social Security Administration (SSA).

Ghost Employers are not easily detected through existing IRS processes.⁴ Ghost Employers are a significant challenge for tax administration because their failure to make Federal tax deposits results in lost employment taxes and income tax revenue and increases the Tax Gap.⁵

Criminal Investigation

The Government can pursue criminal charges for intentional nonpayment of trust fund payments under the Internal Revenue Code (I.R.C.) § 7202 for willful failure to collect, account for, and pay withholding and employment taxes and I.R.C. § 7201 for tax evasion. The Treasury Inspector General for Tax Administration reported in March 2017 that the number of entities with 20 or more delinquent quarters grew from about 5,000 to almost 17,000 from FY 1998

⁴ The SSA provides the Combined Annual Wage Reporting report to the IRS. The report is a document-matching program that compares the Federal income tax withheld, Medicare wages, Social Security wages, and Social Security tips reported to the IRS on the Forms 941 against the amounts reported to the SSA via the processed totals of the Forms W-2 and the amounts reported to the IRS on Forms 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, and W-2G, *Certain Gambling Winnings*. Other employer filing requirements can include Form 943, *Employer's Annual Federal Tax Return for Agricultural Employees*, Form 944, *Employer's ANNUAL Federal Tax Return*, and Schedule H, *Household Employment Taxes*.

⁵ The tax gap is a measure of the level of overall noncompliance.

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through 2015.⁶ In FY 2015, employment tax cases accounted for less than 3 percent of the cases initiated by Criminal Investigation (CI).

The CI Nationally Coordinated Investigations Unit (NCIU) initiated efforts in November 2017 to identify delinquent employers by matching Forms W-2 attached to tax returns filed on Forms 1040, *U.S. Individual Income Tax Return*, with the IRS's payroll tax Forms 941 database to verify whether the corresponding payroll taxes had been filed and paid. This was the first coordinated and systemic approach to identify employers not filing or paying payroll taxes associated with issued Forms W-2. The NCIU initially worked with the Research, Applied Analytics, and Statistics (RAAS) function and an outside vendor to develop an algorithm to identify employment tax noncompliance. The initial data run before applying filters resulted in over 1 million entities that appeared to not have paid employment taxes.⁷

The results were used to identify thousands of employers that had been withholding employment taxes from their employees but not submitting them to the IRS. These employers also did not file employment tax returns and their noncompliance was not detected by the IRS. From June 2018 through May 2023, 354 leads from the NCIU that contained sufficient indicators of fraud were provided to CI Field Offices for investigation. As of May 2, 2023, of the 354 leads, 136 were active investigations, 93 have been adjudicated or are in the pipeline for potential prosecution, and 125 have been closed or discontinued.⁸

Below is an excerpt from a press release from the U.S. Attorney's Office for the Western District of Washington dated May 9, 2023, detailing the prosecution result from one of these cases.

Seattle – A 64-year-old Everson, Washington, man was sentenced today in U.S. District Court in Seattle to two years in prison for failing to pay over taxes, announced U.S. Attorney Nick Brown. Between 2013 and 2019, Jay Howard Prather owned and operated Heritage General Building Contractors. He had as many as 48 employees over that period and withheld \$1,095,388 in Social Security, Medicare, Federal income taxes, and unemployment taxes from his employees' paychecks. Then, instead of paying the money to Federal programs as required, he used the money to buy expensive horses, exotic sportscars, and to remodel his multi-million-dollar lavish estate. At the sentencing hearing, U.S. District Judge John C. Coughenour said Prather "was warned several times that his conduct was illegal."

This is one of many cases CI worked that resulted in prosecution. CI's efforts to identify Ghost Employers are ongoing and are distinct from the one-time civil enforcement initiative described below.

⁶ Treasury Inspector General for Tax Administration, Report No. 2017-IE-R004, *A More Focused Strategy Is Needed to Effectively Address Egregious Employment Tax Crimes* (Mar. 2017).

⁷

⁸ A subject criminal investigation is initiated on an individual or entity alleged to be in noncompliance with the laws enforced by the IRS and having criminal prosecution potential. Adjudication refers to the legal process of resolving a dispute or deciding a case.

Ghost Employer Project

The Data and Analytics Strategic Integration Board adopted Employment Tax as a new project for its Data and Analytics Innovation Lab in October 2019.⁹ As one of the Innovation Lab Projects, the RAAS function staff developed filters to identify employers for [REDACTED] that had no record of filing employment tax returns or filing [REDACTED] with the SSA but had employees with reported wages.

The analysis included calculating the potential tax liability for each employer based on the [REDACTED]. Using the previously mentioned program algorithm used by CI with modifications to look for civil rather than criminal cases and additional filters to reduce the resulting larger volume, the RAAS function identified over 162,000 potential Ghost Employers, with an estimated liability of \$1.7 billion for [REDACTED]. According to the IRS, \$270 million of the \$1.7 billion also had been identified by CI's Ghost Employer Project methodology.

The RAAS division identified over **162K** potential Ghost Employers with **\$1.7B** in estimated tax liability.



On April 21, 2020, the RAAS function presented these preliminary results to the Innovation Lab Employment Tax group, detailing the potential population and showing the specific filters used to eliminate false positives. As a result of the presentation, employment tax stakeholders agreed to explore a sample of the cases. The RAAS function randomly selected 280 potential Ghost Employer entities to be assigned and worked between the Small Business/Self-Employed (SB/SE) Division's Field Collection and Examination functions, as well as the Tax Exempt and Government Entities (TE/GE) Exempt Organization Examination function.¹⁰ The 280 entities and their estimated liability is based on data available in June 2020. The RAAS function calculated the potential tax liability for the 280 entities at \$125 million. The cited goal of the Ghost Employer Project was to use the findings from the 280 entities to develop a SB/SE Division compliance strategy to address Ghost Employers. The IRS refers to this as a "test" and "learn" approach to identify improvement opportunities for the treatment of potential employers.

According to the IRS, RAAS and SB/SE Division's collaboration on the 280 entities was hampered by the rapidly changing conditions and priorities caused by the Coronavirus Disease 2019 Pandemic. The Ghost Employer Project ended in May 2022.¹¹

Given that the RAAS function created the sample, it wanted the SB/SE Division Collection and Examination functions to provide comprehensive feedback based on a representative sample. The RAAS function did not exclude cases believed to be lower risk from the sample. The RAAS

⁹ The Data and Analytics Strategic Integration Board oversees the strategic direction in selecting and approving projects and includes members and executives from multiple business operating divisions. The Innovation Lab is a team of researchers, data scientists, subject matter experts, and executive leaders coming from varied organizational structures across business operating divisions and research functions to collaboratively address noncompliance by joining data analytics with operational experience to examine complex compliance activities.

¹⁰ The RAAS function applied filters to the 162,000 cases to eliminate those employers with an [REDACTED]. Potential cases remaining with an [REDACTED] included 1,500 employers. RAAS selected a random sample of 280 from the 1,500 Employer Identification Numbers for the Collection and Examination functions to review.

¹¹ Hereinafter we refer to the 280 entities as "cases."

function included these lower risk cases to develop a comprehensive strategy instead of focusing on trying to select only the next best case. When the sample cases were provided to the SB/SE Division Collection and Examination functions, the RAAS function intentionally provided little guidance on how to review each case as to not taint their feedback.

The Innovation Lab then presented these findings regarding the sample approach to the Data and Analytics Advisory Group on September 8, 2020, and the Data and Analytics Strategic Integration Board on November 3, 2020. At these meetings, the RAAS function received positive feedback on the methodology from the business operating division executives.

In June 2020, the SB/SE Division Ghost Employer Project was established consisting of SB/SE Division Field Collection and Examination functions, the SB/SE Division Office of Fraud Enforcement, and the TE/GE Division. The Ghost Employer Project team was established to develop a compliance strategy to place identified and future (Ghost Employer) cases generated by the RAAS function into appropriate workstreams. SB/SE Division Collection was the lead on the project.

Results of Review

Criminal Investigation Successfully Identified and Investigated Numerous Ghost Employers

Part of the IRS's success in the tax enforcement arena is dependent on CI's ability to investigate and recommend prosecution of criminal tax violations to the Department of Justice. When employers willfully fail to collect, account for, and deposit with the IRS employment tax due, they are stealing from their employees and the Department of the Treasury. In addition, employers who willfully fail to comply with their obligations and unlawfully line their own pockets with amounts withheld are gaining an unfair advantage over their tax compliant competitors.

The CI's NCIU initiated efforts in November 2017 to identify Ghost Employers. The process was based on applying several filters that tend to indicate potential criminal activity. This process has been run and refined five times including June 2018, November 2018, May 2021, August 2021, and December 2022. The data runs have resulted in a total of 354 leads which CI has been tracking through a comprehensive spreadsheet. Figure 2 summarizes the status of the 354 leads.

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Figure 2: CI Lead Case Status Summary

Type of Investigation	Number
Active	136
Adjudicated, Prosecuted, or in the Pipeline for Potential Prosecution	93
Closed or Discontinued	125
Total	354

Source: CI run against CIMIS as of May 2, 2023.

There are 136 active investigations open as of May 2023. CI is the primary Federal law enforcement agency for investigating and recommending prosecution of criminal tax violations. Figure 3 summarizes the prosecuted cases from August 2021 through May 2023.

Figure 3: CI NCIU Lead Prosecution Summary

Number of Prosecutions	Average Months to Serve	Average Months of Probation	Average Restitution
33	15	33	\$1,319,652

Source: CI run against CIMIS of May 2, 2023.

A total of 33 individuals have been prosecuted for employment tax fraud resulting in almost \$43.55 million in total restitution. Below is an excerpt from CI's FY 2022 Annual Report for one of the prosecuted cases.

Former Vice President of New Jersey Window Tinting Company Sentenced to Prison on Employment Tax Charges September 21, 2021 – Stephen Walloga was sentenced to 2 years in prison and 3 years of supervised release and was ordered to pay \$1,150,487 in restitution for employment tax charges. Walloga admitted that he withheld but failed to pay over to the IRS approximately \$37,524 in payroll taxes on behalf of employees working for A Pain in the Glass, Inc. for the tax quarter ending December 31, 2017. In total, Walloga failed to pay over \$1,150,487 in employment taxes for the years 2010 through 2019.

The active cases are a result of the data analysis conducted by the NCIU. However, the workload and labor time needed to develop these cases are significant. The timeliness of these cases is critical to reducing the impact of future fraudulent employers. If compliance is not enforced in this area, the potential for increased fraud will continue.

The Field Collection-Led Ghost Employer Project Had Limited Success

Based on information we obtained from the Ghost Employer Project team and our independent case reviews and analysis, we determined that the Ghost Employer Project had limited success in

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identifying Ghost Employers. In addition, we found that the Ghost Employer Project team did not sufficiently control or monitor the 280 cases identified by the RAAS function.

According to the Ghost Employer Project team, the project ended in May 2022, even though many of the Ghost Employer Project cases were still being worked. To assess the effectiveness of the project, we requested a current update on the status of all 280 cases. Specifically, we requested the supporting documents that the IRS may have created upon completion of the project. In response, we were provided a spreadsheet that had limited information pertaining to only 178 cases. We confirmed with the Ghost Employer Project team that this was the only supporting documentation available. Using information on this spreadsheet and information provided by the Examination functions in the TE/GE Division and SB/SE Division, as well as CI, we determined how the 280 cases were distributed among the IRS business units.



Figure 4 shows that the estimated employment tax liability for the 280 cases totaled \$125 million and how the cases were distributed.

**Figure 4: Distribution of Potential Ghost Employer Cases
and Their Estimated Tax Liability¹²**

Number of Cases	Assigned	Estimated Tax Liability
32	TE/GE Division	\$5,126,207
24	SB/SE Examination	\$7,528,387
46	SB/SE Collection Abusive Tax Avoidance Transaction	\$19,726,702
65	SB/SE Division Case Creation Nonfiler Identification Process (CCNIP)	\$12,912,776
20	Fraud Referrals to CI	\$6,282,382
93	Not Placed into a Workstream	\$73,520,146
280	Total	\$125,096,600

Source: Treasury Inspector General for Tax Administration analysis of Ghost Employer Project data as of May 2022.

Overall, Figure 4 shows that 187 (280-93=187) of the 280 cases were placed into a workstream while 93 were not placed into a workstream. Figure 4 also shows that 20 of the 280 cases were referred to CI. In June 2020, Field Collection assigned the 280 cases to revenue officers in the Abusive Tax Avoidance Transaction function for review. These Abusive Tax Avoidance Transaction revenue officers analyzed each case for indicators of fraud and for potential assignment into appropriate workstreams. The SB/SE Division’s Office of Fraud Enforcement assisted the Abusive Tax Avoidance Transaction revenue officers by researching internal and public information without contacting the taxpayer. As a result of this analysis, the project team developed 20 fraud referrals for CI. From January 2021 through February of 2022, 16 of the referrals were accepted by CI. The CI referrals were a successful part of the project in getting egregious taxpayers referred expeditiously for criminal investigation. Our review of the 20 cases referred to CI is discussed later in the report.

Figure 4 also shows that 93 cases (33 percent) with an estimated tax liability of \$73.5 million (59 percent) were not placed into a workstream. The project team explained that these 93 cases did not meet the needs for inclusion into a workstream or match the current CCNIP inventory to start the non-filer enforcement process.

Work performed on the Ghost Employer Project cases

For the 187 cases placed into a workstream, we found that once they were distributed to an IRS compliance area, the SB/SE Division Field Collection Ghost Employer Project team did not monitor or track the cases worked by the other areas. As a result, we independently reviewed available information on the 187 cases shown in Figure 4.

TE/GE Division: The Ghost Employer Project team assigned 32 cases to the TE/GE Division but had no record as to what the TE/GE Division did with these cases. We followed up with the

¹² The Case Creation Nonfiler Identification Program (CCNIP) is a process for identifying taxpayers who have not filed required returns. The Ghost Employer project team reviewed the 280 cases for indicators of routine noncompliance, potential fraud, potential examination issues, and potential employer issues. For the remaining cases with no identified issues, the Ghost Employer project team checked against the current CCNIP inventory. The 93 cases not placed into a workstream did not meet any of the indicators of noncompliance and were not part of the CCNIP inventory.

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TE/GE Division regarding these 32 cases and were advised that TE/GE Division employees conducted a review and determined the cases would not be productive examinations. As a result, the TE/GE Division did not assign or work any of the 32 cases. Further, no feedback on the TE/GE Division's review and decision not to work these cases was provided to the Ghost Employer Project team. We determined that [REDACTED]

SB/SE Division, CCNIP: For 65 cases, the Ghost Employer Project team stated that they ran the list of the Employee Identification Numbers against the current CCNIP inventory. All 65 Employee Identification Numbers were found within the current CCNIP inventory.¹³

The CCNIP is a process for identifying taxpayers who have not filed required returns. The process selects volumes of nonfilers and creates tax modules for the selected nonfilers for potential compliance action. Each fiscal year, Nonfiler Inventory and Analysis group analysts prepare an annual schedule of weekly selections using historical data, prior year result data, and the enterprise first notice volume. The schedule aims to timely target the highest priority nonfilers, with high likelihood a return is due while ensuring coverage of all return types. As a result, the 65 cases from the Ghost Employer Project will be treated the same as any of the hundreds of thousands of potential cases created by the CCNIP. However, it is not possible for the IRS to work all the nonfiler inventory given its resource limitations. The Collection function determines the number of nonfiler cases from the nonfiler inventory that will be selected for delinquency notification depending on available resources.

The project team did not in any way monitor these cases or establish a special project code for these Ghost Employer Project cases. Consequently, the Ghost Employer Project team did not know how many, if any, nonfiler cases were created pertaining to the 65 cases. Later, the Nonfiler Inventory and Analysis group stated that they believe 57 of the 65 cases were started as a nonfiler case.

SB/SE Division, Examination: SB/SE Division Examination analyzed all 280 cases looking for cases that would make for productive examinations. The SB/SE Division Examination function selected 24 cases in which the employers were partnerships and established a Compliance Initiative Project (CIP) made up of these 24 cases. The purpose of the CIP was to evaluate whether the models used by the Innovation Lab accurately identified noncompliance with employment and/or income tax filing requirements.¹⁴ The CIP approach in which cases are closely tracked with project codes and assigned to analysts provides more information than the Field Collection approach described previously. The intention of the overall Ghost Employer Project was to "test" and "learn," which required accurate information. If the CIP approach had been applied towards the overall project, it would have improved the tracking of case results and ability to learn from these test cases.

The CIP was established in November 2020, and was scheduled to terminate on September 30, 2023. The IRS stated that the results of the work conducted on these cases

¹³ The IRS's Nonfiler Inventory and Analysis group uses the CCNIP to identify and prioritize nonfiler cases.

¹⁴ CIPs involve contact with specific taxpayers and collection of taxpayer data within a group or segment using either internal or external data to identify potential areas of noncompliance within the group or segment for the purpose of correcting the noncompliance.

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would be summarized upon completion. However, while the CIP concluded on September 30, 2023, the results were not summarized before this report was issued. As a result, we reviewed Master File data for the 24 cases and found the following:¹⁵

- 15 cases were surveyed.¹⁶
- 3 cases were examined and resulted in no change.
- [REDACTED]
- 4 cases are still open.

The IRS is authorized by I.R.C. § 7602 to review the taxpayer's books and records and other information to determine whether the taxpayer has underreported income for income tax purposes or employment tax liability for employment tax purposes. When taxpayers have failed to file a tax return, revenue agents can file a substitute return for the taxpayer based on available information pursuant to I.R.C. § 6020(b).¹⁷

SB/SE Division, Field Collection: The Ghost Employer Project team assigned 46 cases to be worked by Field Collection. The project team captured limited information on the work completed on these cases. Specifically, 14 cases resulted in assessments totaling \$11.2 million (of which almost \$2 million has been collected). Generally, revenue officers can either be assigned cases where there has either been: 1) an assessment, such as when a taxpayer files a return self-assessing the balance due but fails to pay the balance, or 2) no return has been filed, and the revenue officer must either try to secure a tax return from the taxpayer or file a substitute for the return using authority granted to the IRS under I.R.C. § 6020(b). In a Ghost Employer case, the business has not filed employment tax returns, and the revenue officer must file a substitute for the return generating an assessment. After the assessment has been generated, the revenue officer can attempt to collect on the assessment.

Criminal Investigation Referrals: There were 20 fraud referrals made to CI (referenced previously) from SB/SE Field Collection. The criminal referral rate from the Ghost Employer Project was much higher (7 percent) than the general criminal referral rate (0.3 percent) for civil cases and the development time was much shorter.¹⁸ We reviewed information on the status of the referred cases. Four of the 20 cases were rejected because they were deemed not suitable criminal cases, or they lacked media appeal due to the relatively low amount of tax at issue.

¹⁵ Master File: The IRS database that stores various types of taxpayer account information.

¹⁶ For nine of the 15 cases, a different entity was identified during the pre-examination process to be the potential Ghost Employer with employment tax filing requirements. A surveyed case is a case that either a manager makes the determination to close a return without assigning it for examination or an examiner makes the determination not to audit the tax return after completing and documenting the pre-contact analysis, but before examining any books and records (Internal Revenue Manual (IRM) 1.4.40.1.4).

¹⁷ I.R.C. § 6020(b) grants the IRS the authority to prepare and process returns for nonfiling business taxpayers. If a business fails to file a required return, the IRS can create a return on its behalf based on available information.

¹⁸ The criminal referral rate from the Ghost Employer Project was 7 percent (20 of the 280 cases were referred to CI). By comparison, IRS analysis of Tax Year 2015 National Research Program data indicated that 13 (0.3 percent) of roughly 4,000 cases were assessed as fraud, which is a criminal matter. The IRS stated that the development of traditional fraud referrals typically takes years while the Ghost Employer criminal referrals were developed within a few months.

Of the 16 remaining cases that were sent to a CI field office, seven investigations were closed for the following reasons:

- Death of the subject.
- Lack of evidence.
- Lack of jury appeal.
- Subject prosecuted for non-CI-related crimes.

Eight cases are still under investigation and the status of one case was not provided.

Identification of Ghost Employer cases can be improved

The RAAS function's data analysis was based on identifying employers for [REDACTED] that had no record of filing employment tax returns or filing Forms W-2 with the SSA but had employees with reported wages. This methodology does not ensure that the taxpayer has the characteristics of a Ghost Employer, *e.g.*, lack of employment return filing history, as taxpayers may have had filing histories before or after this three-year period.

From the 280 cases identified by RAAS, we reviewed the case histories for 35 cases worked by the SB/SE Division, Field Collection function to identify employers that truly exhibit Ghost Employer characteristics. We determined that only seven of the 35 cases involved potential Ghost Employers, the primary characteristic being that the business filed no employment tax returns and withheld employment taxes from employees but failed to remit those taxes. The seven cases were part of the 14 cases that Field Collection worked as part of the Ghost Employer Project resulting in assessments.

The most prevalent reason to determine a case does not involve a Ghost Employer is due to the employer already having filed employment tax returns and incurring an employment tax balance due. If a taxpayer owes employment taxes, then they would not be trying to evade detection (or in common parlance "flying under the radar"). As noted previously, Ghost Employers do not file and as such would not have a balance owed because they do not file employment tax returns with the IRS. Accordingly, taxpayers with an employment tax balance or a history of filing employment tax returns are not Ghost Employers.

In the 35 case histories, we determined that 27 of the 35 should not have been considered Ghost Employers. The main reason is because the employer already owed employment taxes, meaning the employer had either filed employment tax returns and failed to pay employment taxes on reported wages or had employment tax returns subjected to an examination. The existence of return filing history generally means the taxpayer is not a Ghost Employer. The existence of employment tax liabilities is a data point that should have been leveraged as part of the testing and learning for the close out of the project since the intention is to learn how to better identify Ghost Employers who are "flying under the radar."

According to the IRS, one barrier to efficient employee actions on these cases involved the limitations of IRS systems. The examiner was unable to view a complete history of an employer's reporting and filing behavior. The Innovation Lab recognized the opportunity to leverage the RAAS function's Compliance Data Warehouse Knowledge Graph Environment

(CKGE) to provide enforcement staff a more complete picture of filing and reporting data to support ghost employee examinations and other employment tax compliance issues.¹⁹

The Innovation Lab enhancements included the creation of several reports to provide a more in-depth comparison of employment tax reporting including the Form W-2 report, which provides individual employee and yearly data reported by employer and employee. These reports can be helpful in identifying Ghost Employers. According to the RAAS function, in FY 2023, IRS employees searched the CKGE more than 60,000 times and searched the employment tax-related reports more than 20,000 times.

The RAAS function worked with the SB/SE Division to establish formal training on the CKGE that includes how to access and interpret these employment tax features. In FY 2023, the RAAS function conducted CKGE training for over 1,500 new hires in the SB/SE Division and has plans to expand that training in FY 2024 through a train-the-trainer program with the SB/SE, TE/GE, Large Business and International Divisions and CI.

Performance measures were not established

The Ghost Employer Project formally ended on May 2, 2022; at which time the project team was awarded a Commissioner's Award. According to the Commissioner's award narrative, the award was based on the following:

The Commissioner's Award bestowed upon those who used data analytics to reduce more than 600,000 potentially egregious Ghost Employer cases down to approximately 1,500 for investigation. If not for your efforts, it's unlikely the IRS would have identified these cases.

Most of the award recipients listed in the IRS Commissioner's May 2022 award brochure were revenue officers who did significant work on the 66 cases assigned to the SB/SE Division Collection function and whose efforts were evident during our review. Our report does not call into question the meritorious nature of the work performed by the revenue officers.

Based on our review of the project, we found only seven cases involving potential Ghost Employers. While several cases are still being worked, including eight by CI, we believe that the Ghost Employer Project resulted in limited success in identifying significant noncompliance activity by Ghost Employers. As such, the project did not assess the compliance risk to tax administration created by Ghost Employers. Additionally, the lack of coordination among the Ghost Employer Project team across operating divisions and areas hampered the project. For example, as mentioned previously, [REDACTED]

Overall, the Ghost Employer Project did not achieve its cited goal to use the findings from the 280 cases to develop an SB/SE Division compliance strategy to address Ghost Employers. The intention of the overall Ghost Employer Project was to "test" and "learn," which required accurate information.

¹⁹ CKGE is a larger graph analytical environment that provides varied research and analysis capabilities. A central feature is the "main graph," which currently provides connections among all Employer Identification Numbers found in Master File and different connections between paid preparer relationships.

Criminal Investigation Had Success With Ghost Employers, While Civil Enforcement Efforts Can Be Improved

Performance measurement involves the ongoing monitoring and reporting of project effectiveness and the progress made towards achieving established goals and objectives. In addition to insufficient control and monitoring of the project cases, the Ghost Employer Project team did not establish any performance measures to assess whether it was successful in identifying Ghost Employers.

The Government Accountability Office *Standards for Internal Control in the Federal Government*, states that relevant, reliable, and timely information is needed to achieve project objectives.²⁰ However, when establishing the Ghost Employer Project, the IRS did not adopt any measures or projections. As a result, the effectiveness or success (or failure) of the Ghost Employer Project was not determined.

The following is a list of examples of performance measures that would assist the project team in assessing the effectiveness of the project:

- **Confirmed Ghost Employer** – The purpose of the Ghost Employer Project was to identify Ghost Employers. There is no field or information on the spreadsheet that indicates whether a case involved a potential Ghost Employer.
- **Employment returns secured** – Ghost Employers do not file their required employment tax returns. Securing tax returns would be an important step when working these cases. Even when the case does not involve a potential Ghost Employer, tracking when the case results in securing a tax return from a nonfiler represents a secondary benefit of the project.
- **Cases surveyed** – Cases that are surveyed may indicate the taxpayer did not warrant examination. Compiling this information could be useful in assessing the effectiveness of the data analytics, filters, case building, and case selection. We found that 15 of the 24 Examination CIP cases were surveyed, and all 32 of the cases provided to the TE/GE Division were not worked. The spreadsheet does not capture any of this information nor the reason the cases were not worked.
- **Reasons for noncompliance** – If known, this information would assist the IRS in preventing potential future noncompliance via education and outreach.

Overall, the project team did not effectively monitor, track, and document the results of all 280 cases for the Ghost Employer Project. The spreadsheet that was created to accomplish this and provided to us was incomplete. For example:

- 93 of the 280 cases were not included. Also, the project team did not maintain information as to why these cases were not included.
- 20 of the 280 cases were referred to CI and were not included.

The lack of information from the project makes assessing the performance of the Ghost Employer Project and improving the process to identify and select cases nearly impossible. In response to this review, the SB/SE Division Field Collection committed to collaborating with the SB/SE Division Collection Headquarters for similar projects in the future by establishing a systemic process for tracking results that is not labor intensive.

²⁰ Government Accountability Office, GAO-14-704G, *Standards for Internal Control in the Federal Government*, (Sept. 2014).

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However, the development of the CKGE tool will help in future identification and working of Ghost Employer cases. The Ghost Employer Project team did include feedback to the RAAS function recommending additional filters for future data analysis.²¹ The Ghost Employer Project team also recommended to Field Collection leadership specifically:

- Continuing to partner with the RAAS function on improving Ghost Employer identifiers, running all cases through the CCNIP for case creation, and development of new Taxpayer Delinquency Investigation selection codes.²²
- Tracking cases through the CCNIP, the Collection queue, and the Integrated Collection System.²³
- Creating Field Collection guidance around identifying and working potential Ghost Employer cases.
- Updating the IRM with suggested ways of working Ghost Employer cases.²⁴

The IRS has not provided a status regarding these recommendations.

Ghost Employers present a significant vulnerability to tax administration as their scheme cannot easily be detected by existing IRS enforcement streams. Accordingly, it is important for the IRS to assess the risk that Ghost Employers pose to tax administration.

Recommendation 1: The Commissioner, SB/SE Division should confer with the RAAS function on additional research available and incorporate refinements to filters needed to improve the identification of Ghost Employers.

Management's Response: IRS management agreed with this recommendation. RAAS will confer with SB/SE Collection to explore refinements to filters needed to improve the identification of Ghost Employers.

The Director of Collection, SB/SE Division, should:

Recommendation 2: Use a CIP or similar approach for Ghost Employers, which improves the tracking of enforcement action results and ensures that cases that do not rise to the level of Criminal Investigation involvement are placed into other civil enforcement workstreams.

Management's Response: IRS management agreed with this recommendation. The Director of Collection Policy will provide guidance to Field Collection leadership on the use of a Compliance Initiative Project or similar approach to improve tracking of any future cases worked as part of the Ghost Employer Project.

²¹ [REDACTED]

²² Taxpayer Delinquency Investigation: An account for which it appears a tax return has not been filed by a taxpayer.

²³ Integrated Collection System: An information management system designed to improve revenue collection by providing revenue officers with access to the most current taxpayer information while in the field.

²⁴ Internal Revenue Manual: Primary source of instructions to employees relating to the administration and operation of the IRS.

Recommendation 3: Require SB/SE Division leadership to provide a summary of planned actions in response to the Ghost Employer Project team recommendations as noted in this report.

Management's Response: IRS management agreed with this recommendation. The Director of Collection Policy will provide a summary of planned actions for the recommendations made by the Ghost Employer Project team.

Civil Fraud Penalties Should Be Emphasized and Effectively Used to Bring Ghost Employers Into Compliance

The purpose of penalties is to encourage and increase taxpayer compliance. Penalties encourage voluntary compliance by:

- Demonstrating the fairness of the tax system to compliant taxpayers.
- Increasing the cost of noncompliance.²⁵

The IRS needs to effectively use penalties to encourage compliant conduct. Revenue officers, revenue agents, and their managers must consider the applicability of penalties in each case, and fully develop the penalty issue when the initial consideration indicates that penalties should apply. Abusive transactions, frivolous returns, and other abusive taxpayers' conduct, such as Ghost Employers, undermine the fairness and integrity of the Federal tax system and undercut voluntary compliance. It is important in these cases for examiners and their managers to consider the potential applicability of penalties, and to fully develop the facts to either support the application of the penalty or to demonstrate that penalties should not apply. One of the key indicators of fraud that the courts focus on is the failure to file returns.²⁶ For Ghost Employer cases, the consistent development and proper application of civil fraud penalties will help reduce this activity by imposing tangible economic consequences on taxpayers that engage in those transactions.

I.R.C. § 6651(f) applies in the case of a fraudulent failure to file a return, and the failure to file penalty increases to 15 percent of the net amount of tax due for each month that the return is not filed, up to a maximum of five months, or 75 percent. While the IRS has the burden of proving that the failure to file was fraudulent, the taxpayer must show that the failure is due to reasonable cause and not due to willful neglect. IRS procedures define fraud as:

Deception by misrepresentation of material facts, or silence when good faith requires expression, which results in material damage to one who relies on it and has the right to rely on it. Simply stated, it is obtaining something of value from someone else through deceit.²⁷

According to the IRS, civil fraud penalties should have been considered while working Ghost Employer cases, just as they should be considered when working any case. However, revenue officers cannot make penalty assessments and as stated previously, seven of the nine Ghost Employer cases closed with assessments were closed by revenue officers. Revenue officers must

²⁵ IRM 20.1.1 (Mar. 29, 2023).

²⁶ IRM 25.1.6.4 (June 10, 2021).

²⁷ IRM 25.1.7.1.7 (June 10, 2021).

Criminal Investigation Had Success With Ghost Employers, While Civil Enforcement Efforts Can Be Improved

refer cases to the SB/SE Division Examination function for consideration of penalty assessments. We were advised that no referrals to Examination have been made recommending fraud penalty assessments. This is concerning given that the conduct of Ghost Employers includes intentional actions, such as failing to file employment tax returns and not remitting payment of taxes that have been withheld from employees' wages.

Ghost Employer actions are within the definition of fraud as they have purposely misrepresented facts by issuing Forms W-2 to their employees while not filing the required employment tax returns nor paying the required tax. Each Ghost Employer case should have at a minimum been reviewed for consideration of these penalties as further deterrence for this type of activity. However, revenue officers working these cases were not instructed to specifically consider civil fraud penalties when they were assigned project cases. Civil fraud penalties can be asserted when there is clear and convincing evidence to prove that some part of the underpayment of tax was due to fraud. The level of evidence can be challenging for cases in which the owner is not involved in the payroll or day to day operations. The Office of Fraud Enforcement noted that there is a joint initiative to identify and develop referrals to Examination with civil fraud penalty recommendations. The joint initiative should be leveraged to increase referrals for cases that should consider the assessment of civil fraud penalties.

We determined that seven of the closed project cases with assessments involved potential Ghost Employers. Based on the additional tax assessments of nearly \$4.7 million, we estimate that the IRS could have assessed over \$3.5 million in fraudulent failure to file penalties. We applied the maximum of 75 percent penalty given that the seven Ghost Employers were noncompliant for more than five months. Most of these cases would have been subject to a total of 25 percent penalties based on failure to pay and file penalties. Taking that into consideration, the application of civil penalties would have resulted in potential additional assessments of \$2.3 million.

Recommendation 4: The Director of Collection Policy, SB/SE Division, should issue a reminder to Collection employees to consider referring Ghost Employer cases to Examination for potential civil fraud penalties as outlined in IRM 25.1.6.2(3) when working future Ghost Employer cases.

Management's Response: IRS management agreed with this recommendation. The Director of Collection Policy will issue a reminder to Field Collection employees to consider referring these types of cases for potential civil fraud penalties.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to review the IRS's efforts to bring Ghost Employers into compliance with employment tax reporting and payment requirements. To accomplish our objective, we:

- Interviewed relevant IRS personnel.
- Assessed the effectiveness of the Ghost Employer Project by reviewing case closures and outcomes.
- Determined:
 - How many cases are closed and how many are open.
 - How many cases have been surveyed.
 - How many cases have not been started.
 - What enforcement actions are taken for noncooperative employers.
- Determined the effectiveness of the process CI uses for identifying Ghost Employers.
- Reviewed CI Ghost Employer case closures to determine how the cases were closed, how many led to investigations and prosecutions, and the results of any prosecutions.

Performance of This Review

This review was performed with information obtained from the IRS RAAS function, St. Paul, Minnesota, SB/SE Division, Atlanta, Georgia, CI, Houston, Texas, and the TE/GE Division, Washington D.C. during the period April 2022 through November 2023. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Matthew A. Weir, Acting Deputy Inspector General for Audit; Phyllis Heald London, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations); Timothy Greiner, Director; Lee Hoyt, Audit Manager; and Jesse Fenton, Lead Auditor.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal control was relevant to our audit objective: monitoring. This control was evaluated by reviewing tracking documents and final reports issued by the IRS.

Appendix II

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective action will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; \$2.3 million (see Recommendation 4).

Methodology Used to Measure the Reported Benefit:

We identified seven Ghost Employer cases worked as part of the Ghost Employer Project that appeared to be true Ghost Employers that had taxes assessed. The seven cases had tax assessments of nearly \$4.7 million. The maximum potential civil penalty is 75 percent. The maximum allowable civil fraud penalty would be about \$3.5 million. However, these cases would have already been subject to the maximum failure to file and failure to pay penalties of 25 percent (about \$1.168 million).

Example Calculation: Maximum civil penalty (75 percent) – Maximum failure to file/pay (25 percent) = Total additional penalty

Actual Calculation: \$3,503,323.97 - \$1,167,774.66 = \$2,335,549.31

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

March 15, 2024

MEMORANDUM FOR MATTHEW A. WEIR
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT
Amalia C. Colbert
FROM: Lia Colbert
Commissioner, Small Business/Self-Employed Division
SUBJECT: Draft Audit Report – Criminal Investigation Had Success With Ghost Employers, While Civil Enforcement Efforts Could Be Improved (Audit #202230036)

Digitally signed by Amalia C. Colbert
Date: 2024.03.15 08:11:15 -04'00'

Thank you for the opportunity to review and comment on the subject draft audit report. The goal of the Ghost Employer Project was to use “test and learn” strategies to identify improvement opportunities for treatment of potential employment tax nonfiler cases. The project team limited the definition of Ghost Employers to entities that issued Forms W-2, *Wage and Tax Statement* to individuals, but had not filed employment tax returns for tax years 2016-2019 as of June 2020. The Project Team reviewed a 280-case sample of this population and worked to place them in appropriate workstreams. TIGTA determined that seven of the 35 cases reviewed involved potential Ghost Employers, the primary characteristic being that the business filed no employment tax returns and withheld employment taxes from employees but failed to remit those taxes.

While we agree we can take steps to improve the identification and tracking of these types of taxpayers, the project did have positive outcomes such as case referrals to various compliance functions including SB/SE Examination and IRS Criminal Investigation (CI), egregious cases created and assigned to Abusive Tax Avoidance Transaction (ATAT) revenue officers, additional revenue collected, and tax assessments made on returns filed either voluntarily or involuntarily under Internal Revenue Code § 6020(b).

The Ghost Employer Project highlighted an opportunity to better leverage the Compliance Data Warehouse Knowledge Graph Environment (CKGE) to identify potential Ghost Employers through a comprehensive view of filing and reporting data. Formal CKGE training was delivered to newly hired employees with further plans to

**Criminal Investigation Had Success With Ghost Employers,
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expand training in the future. We acknowledge the importance of compliance in these types of taxpayers and appreciate TIGTA's recommendations for improvements in working employment tax nonfiler cases.

CI places a high priority on investigating individuals who evade the payment of employment taxes. In support of case development for CI's employment tax program, the Nationally Coordinated Investigations Unit (NCIU) continues to enhance the features of the Employment Tax Data Model. In fiscal year 2023, NCIU referred 104 employment tax program leads to CI field operations.

Attached are our comments and proposed actions to your recommendations. If you have any questions, please contact me, or Frederick W. Schindler, Director, Collection, Small Business/Self-Employed Division.

Attachment

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Attachment

Recommendations

RECOMMENDATION 1:

The Commissioner, SB/SE Division should confer with the RAAS function on additional research available and incorporate refinements to filters needed to improve the identification of Ghost Employers.

CORRECTIVE ACTION:

We agree. Research, Applied Analytics & Statistics (RAAS) will confer with SB/SE Collection to explore refinements to filters needed to improve the identification of Ghost Employers.

IMPLEMENTATION DATE:

August 15, 2024

RESPONSIBLE OFFICIAL:

Director, Data Exploration & Testing, Research, Applied Analytics & Statistics

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

The Director of Collection, SB/SE Division, should:

RECOMMENDATION 2:

Use a CIP or similar approach for Ghost Employers, which improves the tracking of enforcement action results and ensures that cases that do not rise to the level of Criminal Investigation involvement are placed into other civil enforcement workstreams.

CORRECTIVE ACTION:

We agree, in part. Director, Collection Policy, will provide guidance to Field Collection leadership on the use of a Compliance Initiative Project (CIP) or similar approach to improve tracking of any future cases worked as part of the Ghost Employer Project.

IMPLEMENTATION DATE:

August 15, 2024

RESPONSIBLE OFFICIAL:

Director, Collection Policy, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

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While Civil Enforcement Efforts Can Be Improved**

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RECOMMENDATION 3:

Require SB/SE Division leadership to provide a summary of planned actions in response to the Ghost Employer Project team recommendations as noted in this report.

CORRECTIVE ACTION:

We agree. Director, Collection Policy, will provide a summary of planned actions for the recommendations made by the Ghost Employer Project team, as noted in this report.

IMPLEMENTATION DATE:

August 15, 2024

RESPONSIBLE OFFICIAL:

Director, Collection Policy, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 4:

The Director of Collection Policy, SB/SE Division, should issue a reminder to Collection employees to consider referring Ghost Employer cases to Examination for potential civil fraud penalties as outlined in IRM 25.1.6.2(3) when working future Ghost Employer cases.

CORRECTIVE ACTION:

We agree. Director, Collection Policy, will issue a reminder to Field Collection employees to consider referring these types of cases for potential civil fraud penalties.

IMPLEMENTATION DATE:

August 15, 2024

RESPONSIBLE OFFICIAL:

Director, Collection Policy, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

OUTCOME MEASURE:

Increased Revenue – Potential; \$2.3 million (see Recommendation 4).

IRS RESPONSE:

We agree.

Abbreviations

CCNIP	Case Creation Nonfiler Identification Process
CI	Criminal Investigation
CIP	Compliance Initiative Project
CKGE	Compliance Data Warehouse Knowledge Graph Environment
FY	Fiscal Year
I.R.C.	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
NCIU	Nationally Coordinated Investigations Unit
RAAS	Research, Applied Analytics, and Statistics
SB/SE	Small Business/Self-Employed
SSA	Social Security Administration
TE/GE	Tax Exempt and Government Entities



**To report fraud, waste, or abuse,
contact our hotline on the web at www.tigta.gov or via e-mail at
oi.govreports@tigta.treas.gov.**

**To make suggestions to improve IRS policies, processes, or systems
affecting taxpayers, contact us at www.tigta.gov/form/suggestions.**

Information you provide is confidential, and you may remain anonymous.