

Informational Report

Tax Compliance for Social Security
Administration Employees

OIG

Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: July 23, 2015 Refer To:

To: The Commissioner

From: Inspector General

Subject: Tax Compliance for Social Security Administration Employees (A-03-15-25004)

The attached final report presents the results of our review. We are issuing this report to provide information about Social Security Administration employees' compliance with Federal income tax laws.

If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.



Patrick P. O'Carroll, Jr.

Attachment

Tax Compliance for Social Security Administration Employees

A-03-15-25004



July 2015

Office of Audit Report Summary

Background

We are issuing this report to provide information about Social Security Administration (SSA) employees' compliance with Federal income tax laws.

According to C.F.R. 2635 *Standards of Ethical Conduct for Employees of the Executive Branch*, Federal employees have a responsibility to the Government and U.S. citizens to be loyal to the Constitution, laws, and ethical principles above private gain. One of the principles of the regulation requires that all Federal employees satisfy in good faith their obligations as citizens. This includes all financial obligations, especially Federal, State, and local taxes imposed by law.

In 1993, the Internal Revenue Service (IRS) developed the Federal Employee/Retiree Delinquency Initiative program to promote Federal tax compliance among current and retired Federal employees. The annual report identifies Federal agencies that have employees who are delinquent in paying Federal taxes.

Summary

Although Federal law requires that Federal employees pay taxes, a small percentage of SSA's workforce did not pay its Federal income taxes. During Fiscal Years (FY) 2006 to 2013, about 3 to 4 percent of SSA's workforce had outstanding tax balances and/or unfiled tax returns. Over the 8-year period, the employees owed \$11 to \$21.8 million in delinquent taxes. As of December 2014, the IRS was levying 1,242 SSA employees' wages to collect unpaid taxes.

Because the Internal Revenue Code generally prohibits the disclosure of taxpayer data to Federal agencies, SSA may not have been aware that a small percentage of its workforce had Federal tax delinquencies. However, in the near future, when conducting background investigations for security clearances, SSA may learn that certain employees are tax delinquent. By 2017, SSA will be required to ensure automatic tax-compliance checks are conducted on employees who occupy public trust and sensitive positions or require access to classified information. The revised Federal Investigative Standards mandate that the IRS conduct these automatic tax compliance checks to determine whether Federal employees have unpaid Federal taxes. About 7 percent of SSA's workforce will be subject to the new tax compliance checks during their background investigations.

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ABBREVIATIONS

C.F.R.	Code of Federal Regulations
FERDI	Federal Employee/Retiree Delinquency Initiative
FIS	Federal Investigative Standards
FPLP	Federal Payment Levy Program
FY	Fiscal Year
GS	General Schedule
IRS	Internal Revenue Service
OIG	Office of the Inspector General
SSA	Social Security Administration
TOP	Treasury Offset Program
U.S.C.	United States Code

BACKGROUND

According to Federal regulations,¹ Executive branch employees have a responsibility to the Government and its citizens to place loyalty to the Constitution, laws, and ethical principles above private gain. To ensure every U.S. citizen can have complete confidence in the Government's integrity, each employee must adhere to the principles of ethical conduct. One of the principles requires that all Federal employees satisfy in good faith their obligations as citizens, including all financial obligations, especially Federal, State, and local taxes imposed by law.² As such, all Federal employees must file and pay their Federal, State, and local income taxes accurately and timely whether they owe additional tax or are receiving a refund.

Since Congress and the public expect Federal employees to demonstrate the highest degree of integrity in tax matters, Federal employees should meet their tax-compliance responsibilities without failure. Tax compliance comprises three obligations.³

- Filing Compliance – Timely filing all tax returns.
- Reporting Compliance – Full and accurate reporting all income, expenses, and deductions.
- Payment Compliance – Full payment of all taxes when due.

Federal Employee/Retiree Delinquency Initiative

In 1993, the Internal Revenue Service (IRS) developed the Federal Employee/Retiree Delinquency Initiative (FERDI) program to promote Federal tax compliance among current and retired Federal employees.⁴ The annual report identifies Federal agencies whose employees are delinquent in paying their Federal taxes.⁵ The IRS identifies the employees by matching personnel records of Federal employees against its database of delinquent and/or balance-due accounts to determine whether Federal employees are delinquent in paying Federal income taxes.

The FERDI reports for Fiscal Years (FY) 2006 to 2013 showed that 276,000 to 318,000 (3 percent) Federal employees (civilian, military, and retirees) were delinquent in paying Federal income taxes. The employees owed \$2.1 to 3.3 billion in Federal income taxes. In FY 2013, about 318,000 employees owed approximately \$3.3 billion in delinquent taxes.

¹ 5 C.F.R. Part 2635, *Standards of Ethical Conduct for Employees of the Executive Branch*.

² 5 C.F.R. § 2635.809.

³ Internal Revenue Service, Publication 4852 Talkpoints for Managers – *Federal Employee Tax Compliance Responsibilities*.

⁴ Internal Revenue Manual 5.19.18 Federal Employee/Retiree Delinquency Initiative (FERDI).

⁵ The annual report includes civilian employees of the Executive, Legislative, and Judicial branches; U.S. Postal Service employees; independent agencies; civilian retirees; active-duty military; National Guard and reservist personnel; and military retirees.

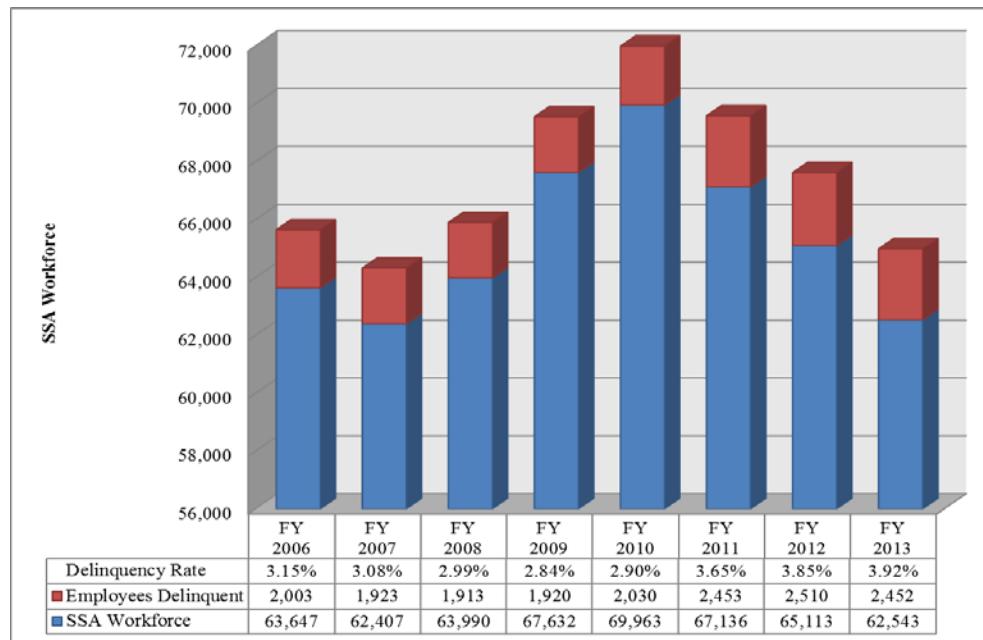
FERDI was developed to help collect full payment of taxes and ensure tax returns are filed timely.

SSA Delinquency Rate for Federal Taxes

FERDI reports showed that, during FYs 2006 through 2013, 3 to 4 percent of SSA's workforce had delinquent Federal income taxes, see Figure 1. The IRS considers an employee delinquent if he/she has unresolved Federal income tax in the form of a balance owed and/or an unfiled tax return.⁶ The IRS excludes employees who have installment agreements. The number of employees who were delinquent ranged from 2,003 in FY 2006 to 2,452 in FY 2013—a 22-percent increase. The delinquency rate among SSA's workforce had slightly decreased in FYs 2006 to 2009. In FY 2006, the delinquency rate was 3.2 percent, and, by FY 2009, it had decreased to 2.8 percent. However, in FY 2010, the delinquent rate increased to 2.9 percent and steadily increased over the next 3 years until it reached 3.9 percent in FY 2013.

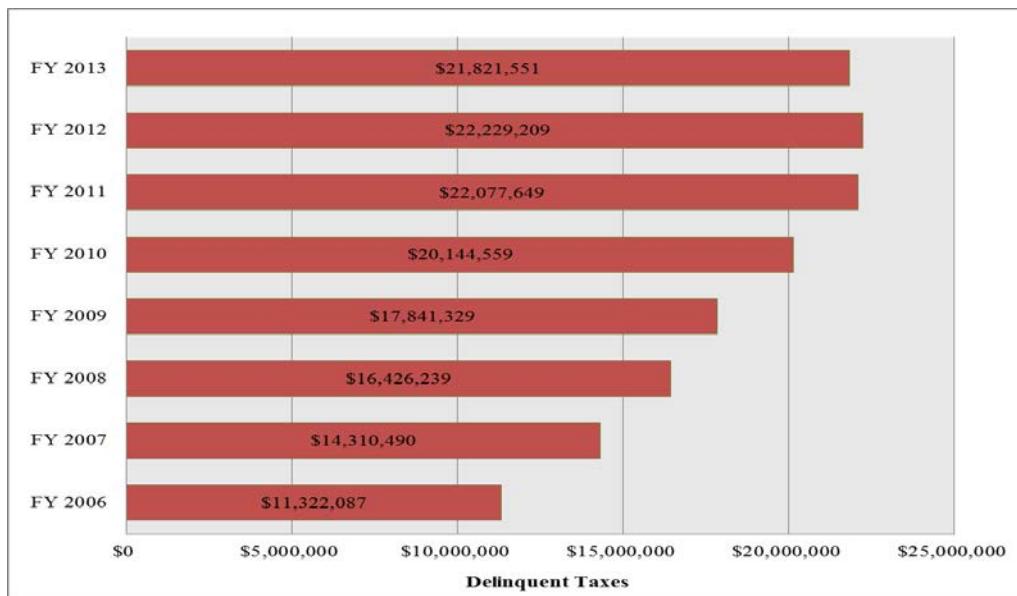
As shown in Figure 2, in FY 2006, SSA employees failed to pay approximately \$11 million in Federal income taxes. However, by FY 2013, the unpaid taxes nearly doubled to about \$21.8 million. The amount of unpaid taxes increased each year, except in FY 2013, when it decreased slightly from \$22.2 to \$21.8 million, a difference of approximately \$400,000.

Figure 1: SSA's Federal Tax Delinquency Balances for FYs 2006 to 2013



⁶ The FERDI report does not include individuals who properly request an extension to file their tax return because the FERDI report is generated after the extension period has expired.

Figure 2: Amount of Delinquent Taxes, FYs 2006 to 2013



Delinquency Rate by Pay Plan/Grade Level

Access to Federal tax information needed to obtain an employee's tax payment status is restricted under section 6103 of the Internal Revenue Code, which generally prohibits disclosure of taxpayer data to Federal agencies and others.⁷ However, we were able to analyze delinquent tax information among SSA employees by pay plan/grade level. As shown in Table 1, in FY 2013, SSA employees in lower-graded positions had the highest delinquency rate. For example, employees at the General Schedule (GS) 12 level and below had a delinquency rate ranging from 3.2 to 8 percent whereas the delinquency rate among employees at the GS-13 level and higher ranged from 1.7 to 2.6 percent. Although employees in higher-graded positions had a low delinquency rate, 43 employees at the GS-15 level and higher had failed to pay their Federal tax obligations. Typically, individuals serving in these positions are key management officials who provide executive leadership and contribute to developing SSA's policies and procedures, goals and objectives, and long-range plans.

⁷ 26 U.S.C § 6103.

Table 1: FY 2013 SSA Federal Tax Delinquency Count by Grade Level

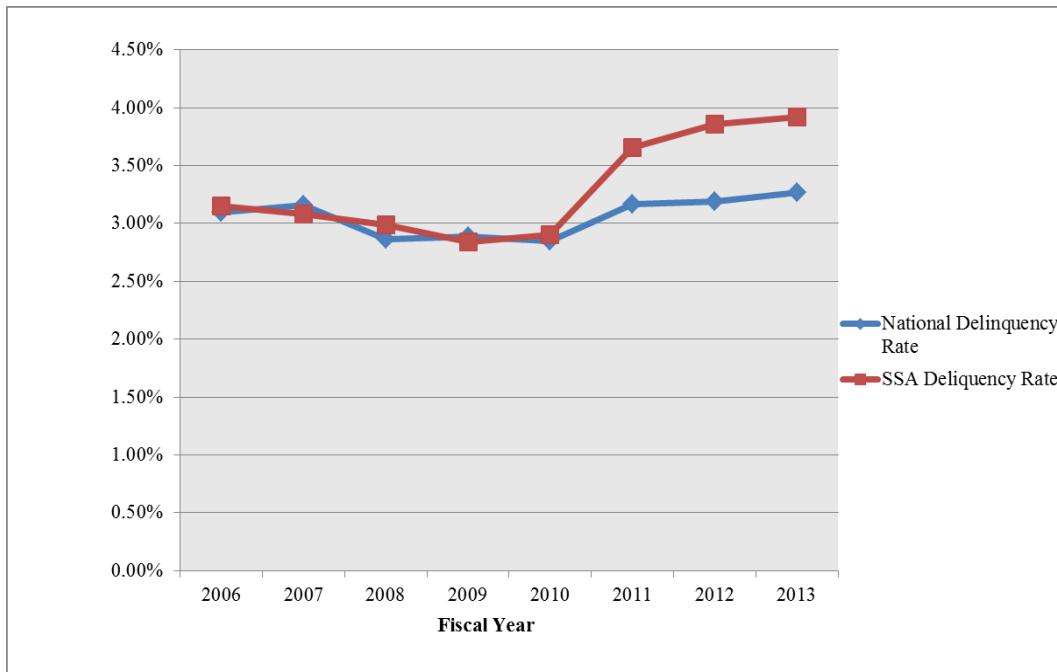
Pay Plan	Grade	Total Workforce	Number of Delinquent Accounts	Delinquency Rate
Federal Wage System		223	15	6.7%
GS	GS-01 to GS-04	268	13	4.9%
	GS-05	1,383	56	4.1%
	GS-06	1,437	72	5.0%
	GS-07	1,710	138	8.1%
	GS-08	11,039	609	5.5%
	GS-09	5,049	290	5.7%
	GS-10	431	30	7.0%
	GS-11	16,833	558	3.3%
	GS-12	11,842	383	3.2%
	GS-13	7,051	181	2.6%
	GS-14	2,801	64	2.3%
	GS-15	748	14	1.9%
Administrative Law Judge		1,485	26	1.8%
Other Pay Plans (Senior Executive Service and other administrative positions)		243	3	1.2%
Total		62,543	2,452	3.9%

SSA versus National Delinquency Rate

As shown in Figure 3, in FYs 2006 to 2010, SSA's delinquency rate was consistent with the national delinquency rate among Federal employees and retirees. In FYs 2011 to 2013, SSA's delinquency rate exceeded the national rate by a very small margin. For example, in 2013, the national delinquency rate was 3.3 percent because about 318,000 of 9.8 million Federal employees and retirees failed to pay about \$3.3 billion in delinquent taxes. SSA's delinquency rate was 3.9 percent because 2,452 of its 62,543 employees failed to pay about \$22 million in delinquent taxes. SSA ranked 34 among the 86 agencies with employees who failed to pay their Federal income taxes.⁸ Of the 86 agencies, 2 had a 10-percent or higher delinquent rate, 15 had a 5- to 9-percent delinquent rate, 33 had a 3- to 4-percent delinquent rate, and 36 had a delinquent rate of less than 3 percent. The highest delinquency rates occurred at Federal agencies with fewer than 100 employees. The agencies with more than 50,000 employees, including SSA, had a relatively small delinquency rate ranging from 1.2 to 4.9 percent.

⁸ The data were derived from the FY 2013 FERDI report. We determined the ranking based on the delinquent rate among all 86 agencies.

Figure 3: SSA Versus National Delinquency Rate Among Federal Employees/Retirees



Collection of Unpaid Taxes

To collect taxes owed by Federal employees, the IRS uses normal collection and taxpayer interview procedures, such as installment or other payment options. Additionally, the IRS uses the Treasury Offset (TOP) and Federal Payment Levy Programs (FPLP)⁹ to collect unpaid Federal taxes. TOP is a centralized offset program administered by the Department of the Treasury to collect delinquent debts owed to Federal agencies. The IRS uses FPLP to levy¹⁰ employees' Federal salaries to collect delinquent taxes.¹¹ The IRS can levy up to 15 percent of gross wages after deductions for current taxes; health insurance premiums; retirement contributions; and, if applicable, court-ordered child support payments.¹² The levy may continue until the entire amount of the Federal tax debt is repaid, other payment arrangements are made, or the debt becomes unenforceable by law. Federal salaries are exempt from FPLP under certain circumstances, including when a taxpayer files bankruptcy, a taxpayer applies for relief as an

⁹ 26 U.S.C § 6331, *See also Taxpayer Relief Act of 1997*, Public Law 105-34, 111 Stat. 788.

¹⁰ A "levy" is legally distinct from "offset." While offset involves the netting of mutual obligations between two parties, a levy is a legal seizure of property, usually in the hands of a third party, to satisfy a tax debt.

¹¹ FPLP can collect overdue taxes through continuous levy on certain payments including Federal salaries, Federal retirement annuities, payment to contractors doing business with the government, employee travel advances and reimbursements, and certain Social Security benefits.

¹² 26 U.S.C. § 6331(h).

innocent or injured spouse, or the IRS determines the taxpayer has a hardship. In 2013, the IRS used FPLP to collect approximately \$602 million in unpaid Federal taxes.¹³

As of December 2014, the IRS had used FPLP and TOP to collect outstanding tax debts owed by 1,242 SSA employees, see Table 2. For these cases, the IRS informed SSA's payroll provider, the Department of the Interior, to levy or offset the employees' wages. Of the 1,242 employees, the IRS used FPLP to collect unpaid taxes from 50 employees and TOP to collect unpaid taxes from 1,192 employees.

Table 2: Employees with Wage Garnishment

Position Description	Total	Percent
Federal Wage System	9	.7
GS-4 Through 12	1,117	89.9
GS-13 Through 15	107	8.6
Other Pay Plans (Senior Executive Service and administrative law judge)	9	.7
Total	1,242	100

Note a: The numbers do not total 100 percent because of rounding.

Federal Tax Compliance Checks

SSA could not ensure its employees were tax-compliant because of the restrictions in section 6103 of the Internal Revenue Code. Generally, SSA may learn about an employee's tax delinquency when the IRS levies or garnishes that employee's wages. In addition, SSA has taken steps to remind employees about tax compliance. Each year, the Agency sends personnel reminders to all employees informing them about their responsibility to meet their tax obligation. For example, in March 2015, SSA issued a personnel announcement that provided employees tools and resources to assist them with complying with their tax obligation.

In 2017, SSA will be able to learn whether certain employees are tax-delinquent when it conducts background investigations for security clearances. The December 2012 Federal Investigative Standards (FIS),¹⁴ which establishes the requirements for conducting employee background investigations, were revised to require automatic tax-compliance checks to identify

¹³ Because FPLP can be used to collect unpaid taxes from non-Federal employees (that is, contractors), not all of the \$602 million in unpaid taxes related to Federal employees.

¹⁴ Revised 2012 Federal Investigative Standards, issued in accordance with Executive Order 13467. FIS establishes the requirements for conducting background investigations to determine eligibility for logical and physical access, suitability for Federal employment, fitness to perform work for, or on behalf of, the Government as a contract employee, and eligibility for access to classified information or to hold a sensitive position. FIS was revised in 2012, but full implementation of all the requirements is scheduled for 2017.

employees who have unpaid taxes.¹⁵ These checks must be performed on employees who occupy public trust and sensitive positions or require access to classified information (Tiers 2 through 5), see Table 3. Furthermore, the checks must be performed at the initial investigation as well as any re-investigation (every 5 years) to determine whether individuals continue meeting the position's requirements. While tax delinquency information could lead to a negative suitability determination, it may not automatically result in employees being ineligible for employment because Federal laws do not prohibit employees with delinquent taxes from employment. However, delinquent taxes could raise a security concern because an individual who is financially overextended is at risk of engaging in illegal acts to generate funds.¹⁶

Since the IRS is responsible for collecting Federal income taxes and enforcing tax laws, it was designated to conduct the Federal automatic tax-compliance checks as part of the background investigation process. In 2012, the IRS indicated it was not in a position to handle the anticipated volume of automated compliance checks. Therefore, the IRS is developing or modifying its existing systems to accomplish automated tax compliance checks by 2017, which is the goal for full implementation of FIS.

Table 3: Investigative Tiered Levels

Tier Level	Description	Automatic Tax Compliance Check
1	Low Risk Non-Sensitive, Physical/Logical Access	No
2	Moderate Risk, Public Trust	Yes
3	Non-Critical Sensitive, Confidential and Secret Security Clearance	Yes
4	High Risk Public Trust	Yes
5	Critical Sensitive, Top Secret, Sensitive Compartmental Information, Special Sensitive	Yes

As of December 2014, SSA had about 4,700 (7 percent) employees who could be subject to the automatic tax-compliance checks by 2017, see Table 4. SSA's records showed these employees held public trust and sensitive positions or required access to classified information.¹⁷ Nearly half (2,119) of the employees were GS-15s or higher. The remaining 60,980 (93 percent) employees will not be subject to the automatic tax compliance checks because they are in non-sensitive/low risk positions. According to SSA staff, the workload associated with the new tax initiative program will have a critical effect on current workloads in the Office of Human Resources. Therefore, SSA may need to increase resources allocated to complete tax-compliance activities.

¹⁵ The 5-tiered investigative levels were established as part of the revised FIS to improve cost, quality, and timeliness of investigations.

¹⁶ 32 C.F.R. § 147.8.

¹⁷ SSA is updating its human resources database to reflect the new descriptions for the investigative-tiered levels.

Table 4: Investigative Type for All SSA Employees

Tier Equivalent	SSA Description of Investigative Type	Number of Employees
1	Non-Sensitive/Low Risk	60,980
2	Moderate Risk	3,628
3	Non-Critical Sensitive	25
4	High Risk	479
5	Critical Sensitive	513
5	Special Sensitive	15
Subtotal: Tiers 2 through 5		4,660
Total		65,640

SUMMARY

While Federal law requires that Federal employees pay taxes, a small percentage of SSA's workforce did not pay their Federal income taxes. During FYs 2006 to 2013, 3 to 4 percent of SSA's workforce was delinquent because of outstanding tax balances and/or unfiled tax returns. The employees owed \$11 to \$21.8 million in delinquent taxes. As of December 2014, the IRS was levying 1,242 SSA employees' wages to collect unpaid taxes. Because the Internal Revenue Code generally prohibits the disclosure of taxpayer data to Federal agencies, SSA may not have been aware that a small percentage of its workforce had Federal tax delinquencies. However, when conducting background investigations for security clearances, SSA may learn whether certain employees are tax-delinquent. By 2017, SSA will be required to ensure it conducts automatic tax compliance checks on employees who occupy public trust and sensitive positions or require access to classified information. The revised FIS mandates the IRS conduct the automatic tax-compliance checks to determine whether the Federal employees have unpaid Federal taxes. About 7 percent of SSA's workforce will be subject to the new tax-compliance checks during their background investigations.

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

We conducted the following:

- Reviewed applicable Federal law, regulations, and Social Security Administration (SSA) policies and procedures.
- Reviewed applicable Internal Revenue Manual system policies and operating instructions relevant to our audit.
- Reviewed Government Accountability Office reports and other relevant documents.
- Reviewed the 2012 Federal Investigative Standards and the Federal Investigative Standards Implementation Plan.
- Obtained and reviewed the Federal Employee/Retiree Delinquency Initiative reports for Fiscal Years 2006 to 2013.
- Obtained and reviewed a listing by pay plan/grade level of SSA employees with delinquent taxes in Fiscal Year 2013 from the Internal Revenue Service.
- Obtained from the Human Resource Operational Data Store the security clearance levels for SSA employees as of December 2014.
- Obtained and reviewed a listing of SSA employees whose wages were levied by the Internal Revenue Service for tax delinquency.

We conducted our review at the Philadelphia Audit Division, Philadelphia, Pennsylvania, from February through April 2015. We conducted our review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

Appendix B – MAJOR CONTRIBUTORS

Cylinda McCloud-Keal, Director, Philadelphia Audit Division

Virginia Harada, Audit Manager

MISSION

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