

Audit: Undocumented workers collect \$4.2 billion in tax credits

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Body

The Internal Revenue Service allowed undocumented workers to collect \$4.2 billion in refundable tax credits last year, according to a new audit - almost quadruple the sum five years ago.

Although undocumented workers are not eligible for federal benefits, the report released Thursday by the Treasury Inspector General for Tax Administration concludes that federal law is ambiguous on whether these workers qualify for a tax break based on earned income called the additional child tax credit.

Taxpayers can claim this credit to reduce what they owe in taxes, often getting refunds from the government. The vagueness of federal law may have contributed to the \$4.2 billion in credits, the report said.

The IRS said it lacks the authority to disallow the claims.

Sen. Orrin G. Hatch (R-Utah), ranking member of the Senate Finance Committee, announced Friday that he plans to examine the refunds.

"The disconcerting findings in this report demand immediate attention and action from Congress and the Obama administration," Hatch said in a statement. "With our debt standing at over \$14.5 trillion and counting, it's outrageous that the IRS is handing out refundable tax credits . . . to those who aren't even eligible to work in this country."

Wage earners who do not have Social Security numbers and are not authorized to work in the United States can use what the IRS calls individual taxpayer identification numbers. Often these result in fraudulent claims on tax returns, auditors found.

Their data showed that 72 percent of returns filed with taxpayer identification numbers claimed the child tax credit.

The audit recommended that the IRS seek clarification on the law and check the immigration status of filers with taxpayer identification numbers.

IRS officials, in response to a draft of the report, agreed to consult with the Treasury Department on the law. But they said they have no legal authority to demand that filers prove their legal status when the tax agency processes returns.

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Changes to tax law are partly to blame for the explosion in refunds for additional child tax credits in recent years, auditors found. Before 2001, filers needed to have three or more children to qualify - and to owe more Social Security taxes than earned income credits.

But those requirements have been eliminated and the allowable refund for each child doubled. The American Recovery and Reinvestment Act of 2009 also made the refund easier to get, auditors found.

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