

Opening Statement of Senator Tom Coburn
PSI Hearing: “Stimulus Contractors Who Cheat on Their Taxes: What Happened?”
May 24, 2011

I would like to start by thanking Sen. Levin for holding this hearing on a matter that is important to every taxpayer. I would also like to thank Senators Baucus, Hatch and Grassley, for working so closely with us on this bipartisan investigation.

Today we are focusing on a new GAO investigation that uncovered thousands of stimulus contract and grant recipients who received billions of dollars from hardworking taxpayers even though the same recipients refused to pay their own taxes. In many instances, the individuals involved have been referred for possible criminal activity.

The purpose of the hearing is to ask questions about the findings and what needs to be done to stop contractors who fail to pay their own taxes from getting federal money.

This is not the first time the Subcommittee has taken a look at tax-cheating federal contractors. In fact, in 2004, the Subcommittee held a hearing on a GAO report that revealed more than 27,000 DOD contractors owed more than \$3 billion in back taxes.

The government should have no patience for those who do not pay their taxes but want federal money. Yet, though there have been improvements, the same problems persist nearly 20 years later.

In looking at the \$821 billion stimulus program, GAO found that 3,700 Recovery Act recipients got **over \$24 billion in contracts and grants, even though they owed \$757 million in delinquent taxes**. This means that more than 10 percent of the money awarded for contracts and grants so far has gone to tax cheats.

Worse yet, for the time period looked at by GAO, it found that one in every six contract and grant dollars went to a known tax cheat.

Average Americans are likely wondering why we gave such a huge amount of federal money to tax cheats when our national debt is more than \$14 trillion. That \$24 billion went to such people looks like we are rewarding people for potentially criminal behavior.

The types of taxes that went unpaid varied, but were primarily corporate income taxes and payroll taxes. Contractors owed more than \$400 million in corporate income taxes and over \$200 million in payroll taxes, which includes taxes that were withheld from employees’ wages but were not remitted to IRS. Some of these contractors received funding from not one, but multiple federal agencies.

Worst of all, these figures surely underestimate the problem, as GAO explains in the report. First and foremost is that it was not able to collect information on 17,000 of 80,000 stimulus contractors.

If GAO’s findings are projected to the remaining 17,000 contractors, it is possible that as many as **4,500 contractors owing nearly \$1 billion in taxes received \$29 billion in contracts**. These numbers are truly astounding.

Illustrating why this is such an outrage, several contractors in question owned multi-million dollar real estate, purchased luxury vehicles, and gambled hundreds of thousands of dollars at the casino, all the while shirking their taxes. Let me highlight some of the more egregious cases:

- A construction company that owed \$700,000 in back taxes received **multiple** stimulus awards totaling over \$1 million. While the company refused to pay its payroll taxes, one company executive saw fit to blow hundreds of thousands of dollars at a casino.
- A security firm with over \$9 million in tax debt got \$100,000 in stimulus funding.
- A technical services company owed the federal government over \$4 million in back taxes. One of the company executives, however, was found to own real estate also worth \$4 million, grossed more than hundreds of thousands of dollars in income and bought a luxury vehicle.

Sadly, these stories are not isolated events. Recently, even the IRS—our nation’s tax enforcer—awarded millions of dollars in contracts to known tax cheats. This just underscores the growing and deserved perception that government is broken and not working hard to protect taxpayer dollars.

At a time when there is growing economic uncertainty, how can we expect honest Americans to continue to do the right thing if federal contractors and grantees are allowed to forego their obligation to pay taxes?

To keep this kind of thing from happening in other areas of our government, I have introduced legislation that would prevent anyone with a serious tax debt from working at a federal agency. Similar rules should apply to contractors and grantees.

Over the last two years, I have raised numerous concerns about how the stimulus has been implemented, and today’s report only adds to that concern. It is especially troubling that seemingly little effort was made by Congress or the administration to prevent tax cheats from getting billions in taxpayer money.

The single biggest weakness was that money went out through State governments and outside organizations. By sending the money through these third-parties, the government allowed recipients to escape the Federal Payment Levy Program.

To be fair, the conditions that led to this latest exposé are not unique to the Recovery Act program. Rather, it is symptomatic of a larger problem that has been kicked down the road for years.

Passing the Recovery Act without meaningfully addressing this problem meant that we simply allowed a longstanding problem to continue.

Congress and the Administration must implement meaningful solutions to ensure that future federal contractors or grantees pay what they owe. It will be equally important for federal contracting personnel to protect taxpayer dollars by using all available tools to achieve this goal.

I want to thank our witnesses for being here and for their time and preparation. I look forward to their testimony.