

NBC WTHR 13

Tax loophole costs billions

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By Bob Segall

Millions of illegal immigrants are getting a bigger tax refund than you. Eyewitness News shows a massive tax loophole that provides billions of dollars in tax credits to undocumented workers and, in many cases, people who have never stepped foot in the United States. And you are paying for it!

INDIANAPOLIS - Inside his central Indiana office, a longtime tax consultant sits at his desk, shaking his head in disbelief.

"There is not a doubt in my mind there's huge fraud taking place here," he said, slowly flipping through the pages of a tax return.

The tax preparer does not want you to know his name for fear of reprisal, but he does want you to know about a nationwide problem with a huge price tag.

He came to 13 Investigates to blow the whistle.

"We're talking about a multi-billion dollar fraud scheme here that's taking place and no one is talking about it," he said.

The scheme involves illegal immigrants -- illegal immigrants who are filing tax returns.

How it works

[The Internal Revenue Service](#) says everyone who is employed in the United States – even those who are working here illegally – must report income and pay taxes. Of course, undocumented workers are not supposed to have a social security number. So for them to pay taxes, the IRS created what's called an [ITIN, an individual taxpayer identification number](#). A 9-digit ITIN number issued by the IRS provides both resident and nonresident aliens with a unique identification number that allows them to file tax returns.

While that may have seemed like a good idea, it's now backfiring in a big way.

Each spring, at tax preparation offices all across the nation, many illegal immigrants are now eagerly filing tax returns to take advantage of a tax loophole, using their ITIN numbers to get huge refunds from the IRS.

The loophole is called the [Additional Child Tax Credit](#). It's a fully-refundable credit of up to \$1000 per child, and it's meant to help working families who have children living at home.

But 13 Investigates has found many undocumented workers are claiming the tax credit for kids who live in Mexico – lots of kids in Mexico.

"We've seen sometimes 10 or 12 dependents, most times nieces and nephews, on these tax forms," the whistleblower told Eyewitness News. "The more you put on there, the more you get back."

The whistleblower has thousands of examples, and he brought some of them to 13 Investigates. While identifying information such as names and addresses on the tax returns was redacted, it was still clear that the tax filers had received large tax refunds after claiming additional child tax credits for many dependents.

"Here's a return right here: we've got a \$10,3000 refund for nine nieces and nephews," he said, pointing to the words "niece" and "nephew" listed on the tax forms nine separate times.

"We're getting an \$11,000 refund on this tax return. There's seven nieces and nephews," he said, pointing to another set of documents. "I can bring out stacks and stacks. It's just so easy it's ridiculous."

20 kids = \$30,000

WTHR spoke to several undocumented workers who confirmed it *is* easy.

They all agreed to talk with WTHR investigative reporter Bob Segall and a translator as long as WTHR agreed not to reveal their identity.

One of the workers, who was interviewed at his home in southern Indiana, admitted his address was used this year to file tax returns by four other undocumented workers who don't even live there. Those four workers claimed 20 children live inside the one residence and, as a result, the IRS sent the illegal immigrants tax refunds totaling \$29,608.

13 Investigates saw only one little girl who lives at that address (a small mobile home). We wondered about the 20 kids claimed as tax deductions?

"They don't live here," said the undocumented worker. "The other kids are in their country of origin, which is Mexico."

He later explained none of the 20 children have ever visited the United States – let alone lived here.

So why should undocumented workers receive tax credits for children living in a foreign country, which is a violation of IRS tax rules?

"If the opportunity is there and they can give it to me, why not take advantage of it?" the worker said.

Other undocumented workers in Indiana told 13 Investigates the same thing. Their families are collecting tax refunds for children who do not live in this country. Several of the workers told WTHR they were told it was legal for them to claim the tax credit for a child who does not live in the United States.

IRS was repeatedly warned

"The magnitude of the problem has grown exponentially," said Russell George, the United States Department of Treasury's [Inspector General for Tax Administration \(TIGTA\)](#).

And he says the IRS has known about the problem for years.

George has repeatedly warned the IRS that additional child tax credits are being abused by undocumented workers. In 2009, his office released [an audit report](#) that showed ITIN tax filers received about \$1 billion in additional child tax credits. Last year, the inspector general released a [new report](#) showing the problem now costs American tax payers more than \$4.2 billion.

"Keep in mind, we're talking \$4 billion per year," he said. "It's very troubling."

What George finds even more troubling is the IRS has not taken action despite multiple warnings from the inspector general.

"Millions of people are seeking this tax credit who, we believe, are not entitled to it," said the inspector general. "We have made recommendations to [IRS] as to how they could address this, and they have not taken sufficient action in our view to solve the problem."

Other information obtained from the [TIGTA audits](#) include:

- Claims for additional child tax credits by ITIN filers have skyrocketed during the past decade, from \$161 million in 2001 to \$4.2 billion in tax year 2010.
- Undocumented workers filed 3.02 million tax returns in 2010. 72% of those returns (2.18 million) claimed the additional child tax credit.
- In 2010, the IRS owed undocumented workers more in claimed additional child tax credits than it collected from those workers in taxes.

Agency responds – sort of

What does the IRS have to say about all this?

The agency sent WTHR a statement, defending its policy of paying tax credits to illegal immigrants.

"The law has been clear for over a decade that eligibility for these credits does not depend on work authorization status or the type of taxpayer identification number used. Any suggestion that the IRS shouldn't be paying out these credits under current law to ITIN holders is simply incorrect. The IRS administers the law impartially and applies it as it is written," the statement said.

George disagrees with that position and believes the IRS should be doing more to prevent undocumented workers from getting billions in US tax dollars.

"The IRS is not doing something as simple as requesting sufficient documentation from people seeking this credit," he said. "Once the money goes out the door, it's nearly impossible for the IRS to get it back."

Over the past month, WTHR has tried to ask the IRS more questions about its efforts to prevent abuse involving additional child tax credits.

Despite repeated phone calls, e-mails and a visit to IRS headquarters in Washington, the agency said none of its 100,000 employees had time to meet with 13 Investigators for an interview. An IRS spokeswoman said all staff were too busy because of the tax filing deadline in mid-April.

Apparently, the IRS doesn't have time to respond to some tax preparers, either.

Last year, our whistleblower noticed dozens of undocumented workers had used phony documents and false income to claim tax credits. He reported all of it to the IRS.

"These were fraudulent, 100% fraudulent tax returns, but I got no response; absolutely none. We never heard a thing," he said. "To me, it's clear the IRS is letting this happen."

The IRS tells WTHR it can do nothing to change the current system unless it gets permission from Congress. In other words, according to the IRS, closing the loophole would require lawmakers to pass a new law specifically excluding illegal immigrants from claiming additional child tax credits.

The big questions now: Is Congress willing to do that?

Full statement to WTHR from the Internal Revenue Service

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The IRS disagrees with TIGTA's recommendation on requiring additional documentation to verify child credit claims. As TIGTA acknowledges in this report, the IRS does not currently have the legal authority to verify and disallow the Child Tax Credit and the Additional Child Tax Credit during return processing simply because of the lack of documentation. The IRS has procedures in place specifically for the evaluation of questionable credit claims early in the processing stream and prior to issuance of a refund. The IRS continues to work to refine and improve our processes.

<http://www.wthr.com/story/17798210/tax-loophole-costs-billions>