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Self-employment Earnings Removed from the Master Earnings File
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SOCIAL SECURITY ADMINISTRATION OIG

January 2015 **Office of Audit Report Summary**

Objective

To identify instances where the Social Security Administration (SSA) removed self-employment earnings from the Master Earnings File (MEF) and determine the potential impact this had on SSA programs.

Background

We initiated this review after the Dallas Regional Commissioner informed us that field offices had reported several cases where Supplemental Security Income (SSI) recipients admitted they falsified self-employment income (SEI) to fraudulently obtain an Earned Income Tax Credit (EITC), a refundable tax credit available to low- to moderate-income individuals and couples. The recipients then disclaimed the SEI to prevent SSA from reducing their SSI payments.

The EITC program is subject to fraud and abuse. According to the Treasury Inspector General for Tax Administration (TIGTA), the Internal Revenue Service (IRS) estimated that between 21 and 29 percent of all EITC payments issued during Fiscal Years 2008 through 2011 were improper. The IRS also estimated that, during this period, it issued between $51.3 and $61.5 billion in improper EITC payments.

Findings

SSA removed from the MEF about $742 million in SEI originally reported on approximately 50,000 numberholders' Federal income tax returns for Tax Years 2008 through 2011. Most transactions likely involved improper EITC or SSA payments.

During the period reviewed, SSA deleted $343 million in SEI and notified the IRS when it deleted the earnings. However, during the same period, SSA transferred $399 million in SEI to the Earnings Suspense File (ESF) instead of deleting it. SSA did not report these transactions to the IRS. At our request, TIGTA reviewed tax returns associated with SEI that SSA transferred to the ESF from randomly selected numberholders' earnings records. Based on its review, TIGTA determined that tax filers had used the SEI to claim the EITC on 77.3 percent of the tax returns reviewed. The average EITC amount paid per tax return was $4,053.

The current process requires that individuals report SEI to the IRS but allows SSA to remove SEI from its earnings records at the individual's request. This arrangement can result in situations where individuals claim SEI on their tax returns to obtain the EITC but later request SSA remove the earnings to prevent reductions in their SSA payments or denial of their benefit claims. Depending on whether SSA deletes or suspends the earnings, the IRS may never know the numberholder disclaimed the SEI.

Recommendation

We recommend that SSA modify its existing process so it notifies the IRS in all cases where SSA removes SEI from a numberholder's earnings record. SSA agreed with the recommendation.