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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

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June 9, 2016

The Honorable J. Russell George
Inspector General
Treasury Inspector General for Tax Administration
1401 H Street, NW
Washington, DC 20005

Dear Inspector General George:

The American Recovery and Reinvestment Act of 2009 created the Section 1603 Payments for Specified Energy Property in Lieu of Tax Credits (“Section 1603”) program. Under the program, taxpayers making certain commercial investments in energy properties could elect to receive a cash grant in lieu of claiming the energy investment tax credit under Internal Revenue Code §48(a) (“energy credit”). As of May 1, 2016, the Treasury Department has awarded over \$25 billion in Section 1603 cash grants. While the program has undoubtedly funded legitimate projects throughout the country, it has also proven susceptible to misuse and fraud.

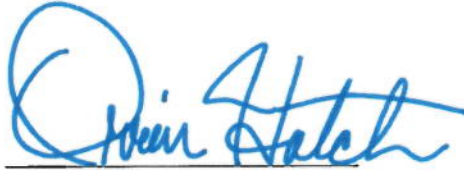
Despite TIGTA’s earlier recommendation,¹ the Internal Revenue Service (“IRS”) declined to establish an indicator on taxpayer accounts receiving Section 1603 cash grants. The IRS instead opted to extend its narrowly focused Compliance Initiative Project, and risks remain that the program is vulnerable to double-dipping and other abuses. Given the IRS’s limited work in this area, the extent that this is occurring is not fully known. Therefore, I write to request that TIGTA conduct further oversight in this area by undertaking the following:

1. Using a statistically valid sample of recipients of all sizes, determine the extent to which Section 1603 grant recipients have claimed disallowed energy credits;
2. In cases where a Section 1603 grant recipient also claimed an energy credit, determine if this was already known to the IRS and, if so, were appropriate actions taken; and
3. Examine the methods of property valuation used by taxpayers claiming the Section 1603 cash grant, including methods of measuring the cost basis of the property, the role of tax equity investors, and the use of independent accountants for properties with a cost basis of more than \$500,000.

¹ *Review of Section 1603 Grants in Lieu of Energy Investment Tax Credit*, TIGTA Report No. 2014-IE-R006 (December 17, 2013).

Due to the Committee's ongoing work in this area, I ask that numbers 1 and 2 of this request be expedited. Thank you in advance for your assistance with this request.

Sincerely,

A handwritten signature in blue ink that reads "Orrin Hatch". The signature is written in a cursive style with a large, circular initial "O".

Orrin G. Hatch
Chairman