



Treasury Inspector General for Tax Administration

SUSPENDED E-FILE PROVIDERS WERE NOT ADEQUATELY ASSISTED WITH REINSTATEMENT OF ELECTRONIC FILING PRIVILEGES

Issued on July 10, 2007

Highlights

Highlights of Report Number: 2007-40-114 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Electronic-file (*e-file*) Providers originate the electronic submission of income tax returns to the Internal Revenue Service (IRS). In October 2006, the IRS suspended 12,588 Providers for not submitting required forms. The suspensions created a significant backlog of Providers, and the IRS was not adequately prepared to assist them with the reinstatement of their electronic filing privileges. This could have prevented Providers from submitting electronic tax returns and required them and/or taxpayers to file paper tax returns.

WHY TIGTA DID THE AUDIT

This audit was initiated because in January 2007 TIGTA received a complaint regarding the timeliness of IRS assistance in reinstating *e-file* Providers that had been suspended because of noncompliance with U.S. Individual Income Tax Declaration for an IRS *e-file* Return (Form 8453) submission requirements. The complainant was concerned about how this might affect both the IRS and the Providers during the 2007 Filing Season. Our review was conducted to determine why the IRS experienced a backlog of suspended *e-file* Providers prior to the start of the 2007 Filing Season.

WHAT TIGTA FOUND

On October 30, 2006, the IRS suspended 12,588 *e-file* Providers for not submitting the required Forms 8453. The suspensions created a significant backlog of Providers who needed IRS assistance to be reinstated before January 12, 2007 (the date the IRS began accepting electronic tax returns). This backlog resulted when Warning and Suspension Letters were issued late and the IRS was not adequately prepared to assist Providers with reinstatement.

Once the Letters were issued and Providers were suspended, IRS assistors were often unable to access

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the primary computer system (the Employee User Portal) needed to reinstate suspended Providers because the system was unavailable. In addition, IRS assistors noted that a number of *e-file* Providers stated they had not received the Warning or Suspension Letters, and procedures for working undelivered Letters were not consistent. Further, the Austin, Texas, Campus was closed for 2 business days because of weather at the beginning of the 2007 Filing Season, when the IRS was answering inquiries and working appeals from the suspended *e-file* Providers.

Issues relating to Form 8453 filing requirements (including processing the Forms, generating Warning letters to *e-file* Providers, suspending Providers, and processing appeals) would be addressed if, as TIGTA had recommended in a September 2006 report, the IRS mandated the use of a Personal Identification Number. Implementation of this recommendation would have eliminated the required use of the Form 8453.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Wage and Investment Division, reconsider eliminating the use of Form 8453. If the Commissioner disagrees with eliminating the use of Form 8453, the Commissioner should ensure Warning and Suspension Letters are issued timely, continue to monitor the availability of the Employee User Portal, and revise guidelines for handling undeliverable Warning and Suspension Letters.

In their response to the report, IRS officials stated they agreed with the first recommendation because they have reconsidered their previous position on eliminating the use of Form 8453. Management plans to develop a comprehensive action plan to pursue mandating the use of Personal Identification Numbers by *e-file* Providers for the 2008 Filing Season. Management also plans to evaluate mandating Personal Identification Number usage by online filers in the 2009 Filing Season. Because management agreed with the first recommendation, the additional recommendations are no longer applicable.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200740114fr.pdf>.

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