



Treasury Inspector General for Tax Administration Office of Audit

TAXPAYER INFORMATION IS AT RISK WHEN COPIES OF TAX RETURNS AND TRANSCRIPTS ARE ORDERED

Issued on September 22, 2009

Highlights

Highlights of Report Number: 2009-40-140 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Identity theft is the number one consumer complaint. Identity theft occurs when someone uses Personally Identifiable Information, such as an individual's name or Social Security Number, to commit fraud and other crimes. Taxpayers need to be assured that the Internal Revenue Service (IRS) is taking every precaution to protect their private information from inadvertent disclosure. Taxpayers who submit Requests for Copy of a Tax Return (Form 4506) or Requests for Copy of a Tax Return Transcript (Form 4506-T) are at risk of unauthorized disclosures of taxpayer information.

WHY TIGTA DID THE AUDIT

More than 130 million taxpayers entrust the IRS with sensitive financial and personal data. The objective of this audit was to determine if measures could be taken to strengthen the controls over requested tax returns and transcripts.

WHAT TIGTA FOUND

The IRS Return and Income Verification Services units process written taxpayer requests for copies of tax returns or transcripts. From a judgmental sample of 120 taxpayer requests, 51 requests were processed incorrectly or not in accordance with guidelines. This included 1 request resulting in an unauthorized disclosure of taxpayer information, 29 requests containing errors that increased the risk of unauthorized disclosures, and 21 requests that were not processed according to guidelines.

TIGTA auditors also submitted 33 transcript requests; 5 requests were incorrectly processed, increasing the risk of unauthorized disclosures. These errors occurred because employees did not always follow guidelines or the guidelines are unclear, inconsistent, and insufficient to protect taxpayer information. The IRS also did not respond to 5 of the 33 requests.

Email Address: inquiries@tigta.treas.gov
Web Site: <http://www.tigta.gov>

The IRS currently charges \$57 for copies of both electronically filed (*e-filed*) and paper-filed tax returns. TIGTA believes the IRS incurs significantly lower costs when processing requests for *e-filed* tax returns as compared to the cost to process copies of paper tax returns.

Lastly, increased use of the Integrated Customer Communications Environment (ICCE) would reduce the volume of Forms 4506-T manually processed in the Return and Income Verification Services units. The ICCE is an automated self-help system that allows taxpayers to use the telephone key pad to order transcripts.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Wage and Investment Division, clarify guidelines to require an accurate name and Social Security Number before Forms 4506 and 4506-T can be processed. Internal controls should be developed and training provided to ensure that Return and Income Verification Services units: 1) use the Transcript Delivery System automated process to mail transcripts, 2) send copies of tax returns and transcripts only to the address of record, and 3) properly maintain requests for copies of tax returns and transcripts. Guidelines should also be developed to process requests for taxpayers who are victims of identity theft, the user fee for *e-filed* tax returns should be reduced or eliminated, and IRS.gov and Form 4506-T should be updated to prominently display the option and benefits of ordering a transcript using the ICCE.

The IRS agreed with four of the five recommendations. It plans to take action to ensure Return and Income Verification Services units are adhering to established guidelines and maintaining required documentation. The IRS also plans to revise research requirement guidelines, implement identity theft procedures, and take steps to increase taxpayers' awareness of the ICCE.

The IRS did not agree with our recommendation to reduce or eliminate the user fee for requesting copies of *e-filed* tax returns or the associated outcome measure. The IRS believes the costs to provide electronic printouts to taxpayers justify the user fee. The IRS also did not agree with the stated outcome measure for increasing taxpayer awareness of the ICCE.

TIGTA believes that the cost to process requests for a printout of an *e-filed* tax return may be significantly lower than the cost to process copies of tax returns submitted on paper. The cost of providing printouts of *e-filed* tax returns is comparable to providing printouts of transcripts, which are free.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2009reports/200940140fr.pdf>.

Phone Number: 202-622-6500