



Treasury Inspector General for Tax Administration Office of Audit

THE 2009 FILING SEASON WAS SUCCESSFUL DESPITE SIGNIFICANT CHALLENGES PRESENTED BY THE PASSAGE OF NEW TAX LEGISLATION

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Highlights

Highlights of Report Number: 2009-40-142 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Each year, tax law changes create challenges for both the Internal Revenue Service (IRS) and individual taxpayers. Moreover, the 2009 Filing Season presented additional challenges due to the passage of three significant tax laws in Calendar Years 2008 and 2009 after the filing season had started. Through May 29, 2009, the IRS had received more than 133.6 million individual tax returns. Of those, 91.7 million were electronically filed and 41.9 million were filed on paper.

WHY TIGTA DID THE AUDIT

The filing season is critical for the IRS because it is the time when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. The overall objective of this review was to evaluate whether the IRS timely and accurately processed individual paper and electronically filed tax returns during the 2009 Filing Season.

WHAT TIGTA FOUND

The IRS had a successful 2009 Filing Season despite the challenges presented by the enactment of new tax legislation and unusually high taxpayer errors resulting from confusion in calculating the Recovery Rebate Credit. While we had some concerns that are discussed in the report, the IRS correctly implemented key tax law and administrative changes with no significant delays.

The IRS faced challenges in administering the First-Time Homebuyer Credit (FTHC). TIGTA identified more than 1.1 million tax returns on which taxpayers were allowed more than \$7.8 billion in FTHCs. The American Recovery and Reinvestment Act of 2009 modified the FTHC by increasing the maximum amount of the credit to \$8,000 and eliminating the repayment for homes purchased in Calendar Year 2009 with some exceptions.

The IRS established the Special Processing Code "H" to assist computer programs in distinguishing FTHC claims for homes purchased in Calendar Year 2009 from homes purchased in Calendar Year 2008 because of the different repayment rules. This code should be recorded for homes purchased in Calendar Year 2009. Our limited testing of returns with the FTHC found the code was not always recorded accurately. TIGTA reviewed the purchase dates shown on 47,276 electronically filed returns and found that 93 percent (43,967) did not have their IRS accounts properly coded. Since these homes were purchased in Calendar Year 2009, the taxpayers should not be required to repay the FTHC but may eventually be incorrectly identified as liable for repayment of the credit. Taxpayers may be burdened by inaccurate notices and improper collection attempts if the IRS cannot accurately identify which credits must be repaid.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Wage and Investment Division, ensure Special Processing Code "H" is accurately used on taxpayer accounts by identifying previously processed tax returns that were not coded accurately and ensuring subsequently processed tax returns are properly coded.

In their response to the report, IRS officials disagreed with this recommendation. Management stated they have gone to considerable lengths to mark accounts with the year of purchase and the dollar value of the credit issued and intend to track this information on the Master File for taxpayers who are required to pay back the credit. As the IRS determines what compliance activities will be conducted, it will validate the information it has to ensure only those taxpayers who have not met their responsibilities are contacted. This will include ensuring the date of purchase was captured accurately.

Although management indicated in their response that they went through considerable lengths to mark accounts with year of purchase that will be used in determining if recapture is required, our review of 47,276 electronically filed returns found that 93 percent (43,967) did not have their accounts properly coded. TIGTA recently initiated an audit that will evaluate the effectiveness of IRS efforts to distinguish between filers claiming the credit for a purchase in Calendar Year 2008 versus a purchase in Calendar Year 2009.

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/200940142fr.pdf>

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