



## Treasury Inspector General for Tax Administration Office of Audit

### THE INTERNAL REVENUE SERVICE FACES SIGNIFICANT CHALLENGES IN VERIFYING ELIGIBILITY FOR THE FIRST-TIME HOMEBUYER CREDIT

Issued on September 29, 2009

## Highlights

Highlights of Report Number: 2009-41-144 to the Internal Revenue Service Commissioners for the Wage and Investment and Small Business/Self-Employed Divisions.

### IMPACT ON TAXPAYERS

Congress allocated \$13.6 billion for the First-Time Homebuyer Credit in the Housing and Economic Recovery Act of 2008. The Joint Committee on Taxation estimated that more than \$4.3 billion more would be paid to first-time homebuyers in Fiscal Years 2009 and 2010 as a result of the revisions in the American Recovery and Reinvestment Act of 2009.

The President of the United States has called on Federal agencies to ensure that recovery funds are used for authorized purposes and that every step is taken to prevent fraud, waste, error, and abuse. The Internal Revenue Service (IRS) faces significant challenges to ensure that recovery funds it administers are used for authorized purposes.

### WHY TIGTA DID THE AUDIT

Section 1006 of the American Recovery and Reinvestment Act of 2009 revised and extended the First-Time Homebuyer Credit provided for in the Housing and Economic Recovery Act of 2008. Taxpayers qualifying for the revised Credit may claim the \$8,000 Credit on either their Tax Year 2008 or 2009 individual income tax returns. The overall objective of this review is to determine whether the IRS has controls in place that effectively identify erroneous claims for the Credit.

### WHAT TIGTA FOUND

The IRS developed controls to identify many questionable claims for the Credit. However, some key controls were missing to prevent individuals from erroneously claiming the Credit. Despite recommendations made in our November 25, 2008, memorandum as part of a prior TIGTA audit, the IRS did not require taxpayers to provide documentation to substantiate the purchase of a home.

Many taxpayers erroneously claiming the Credit will be identified by recently implemented IRS filters and subject to pre-refund audits; however, TIGTA identified 70,005 taxpayers whose tax returns were processed prior to the implementation of these filters.

Also, 48,580 taxpayers who may not have been aware of the changes to the Credit included in the American Recovery and Reinvestment Act of 2009 did not claim the full amount to which they were entitled.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS develop a plan to address questionable claims for the Credit that were processed prior to IRS examination filters being implemented. The IRS should also monitor accounts of taxpayers who purchased homes in Calendar Year 2009 and claimed Credits of \$7,500 to determine if the taxpayers amend their returns. If not, the IRS should contact these taxpayers to inform them that they may be entitled to an additional refund if the purchase price of their home was greater than \$75,000.

In its response to the report, the IRS agreed to our recommendations and plans to take corrective actions to address them.

### 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/200941144fr.pdf>.

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