



*Multiple Use of Taxpayer Identification  
Numbers Continues to Result in Significant  
Erroneous Exemptions and Credits*

**September 14, 2010**

**Reference Number: 2010-40-117**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

2(f) = Risk Circumvention of Agency Regulation or Statute



## HIGHLIGHTS

### **MULTIPLE USE OF TAXPAYER IDENTIFICATION NUMBERS CONTINUES TO RESULT IN SIGNIFICANT ERRONEOUS EXEMPTIONS AND CREDITS**

## Highlights

**Final Report issued on September 14, 2010**

Highlights of Reference Number: 2010-40-117 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### **IMPACT ON TAXPAYERS**

Any person required to file a tax return is required to include an identifying number, referred to as a Taxpayer Identification Number (TIN). For the majority of filers, the TIN is the individual's Social Security Number. Generally, a TIN cannot be used on more than one tax return per year. When a TIN is used on more than one tax return per year, individuals may inappropriately receive tax benefits.

### **WHY TIGTA DID THE AUDIT**

This audit was initiated because multiple TIN use has grown from almost 2.2 million TINs used on 3.9 million tax returns in Tax Year (TY) 2005 to 2.6 million TINs used on 4.6 million tax returns in TY 2007. The overall objective of this review was to assess the effectiveness of the Internal Revenue Service's (IRS) identification of multiple TIN uses and its ability to prevent individuals from inappropriately receiving tax benefits as a result of the improper use of TINs.

### **WHAT TIGTA FOUND**

TIGTA estimates that individuals inappropriately received at least \$380 million in personal tax exemptions and tax credits in TY 2007 as a result of the multiple use of TINs. TIGTA identified 2,450,205 unique TINs that were used to claim a personal exemption or one or more of the tax credits TIGTA analyzed in TY 2007. These TINs were used on over 3.2 million tax

returns. Over 5 years, erroneous exemptions and credits could exceed \$1.9 billion.

The IRS faces significant difficulties in preventing erroneous tax benefits associated with multiple TIN uses. However, there are actions the IRS can take to reduce erroneous claims. These include:

- Expanding the issuance of notices.
- Initiating additional compliance efforts on multiple TIN uses for erroneous Earned Income Tax Credit claims.
- Disallowing multiple uses of IRS-issued identification numbers.
- Initiating compliance efforts to prevent the abusive use of TINs.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the Commissioner, Wage and Investment Division:

- Expand the issuance of notices to more individuals involved in the multiple use of TINs.
- Identify alternative compliance processes to address all individuals involved in the multiple use of TINs to claim the EITC.
- Implement a process to prevent and/or recover erroneous claims resulting from the multiple use of an Individual Taxpayer Identification Number.

In addition, the IRS should establish processes to prevent and/or recover tax benefits erroneously provided to taxpayers when a TIN is used excessively in a single tax year.

The IRS agreed with two of our four recommendations. The IRS did not agree to expand the issuance of notices or to expand its processes for preventing and/or recovering erroneous claims resulting from an Individual Taxpayer Identification Number.

We believe expanding the issuance of notices to additional individuals is consistent with IRS' current processes. In addition, we believe the IRS has a responsibility to use the data available to validate a taxpayer's claim with regard to an Individual Taxpayer Identification Number.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

September 14 , 2010

**MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION**

**FROM:** *Michael R. Phillips*  
Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Multiple Use of Taxpayer Identification Numbers  
Continues to Result in Significant Erroneous Exemptions and Credits  
(Audit # 200940028)

This report presents the results of our review in assessing the effectiveness of the Internal Revenue Service's identification of multiple uses of Taxpayer Identification Numbers (TIN) and its ability to prevent individuals from inappropriately receiving tax benefits as a result of the improper use of TINs. This audit was a followup to two prior Treasury Inspector General for Tax Administration reviews of multiple TIN uses.<sup>1</sup> This audit was included in our Fiscal Year 2009 Annual Audit Plan and addresses the major management challenge of Erroneous and Improper Payments and Credits.

Despite management's agreement with two recommendations and partial agreement with another, management disagrees with our outcome measures. The basis for management's disagreement is that it believes diverting resources from other types of audits to perform multiple TIN use audits would result in a decrease in revenue protected from those other audits. However, our recommendations included expanding the issuance of soft notices and identifying alternative compliance processes, not the performance of an audit. The intent of these recommendations was to avoid the need to divert resources from other types of audits.

Furthermore, for those recommendations with which management is in agreement, corrective actions, which include issuing notices and developing referral processes for those most egregious

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<sup>1</sup> *Duplicate Dependent and Qualifying Child Overclaims Result in Substantial Tax Revenue Losses Each Year* (Reference Number 2001-40-059, dated March 15, 2001) and *Efforts to Prevent Improper Tax Benefits Resulting From Multiple Uses of Taxpayer Identification Numbers Can Be Improved* (Reference Number 2006-40-007, dated November 4, 2005).



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multiple TIN uses, are dated January 2013. We are concerned about this delay of over 2 years to implement corrective actions because it will result in continued significant revenue losses.

Management's complete response to the draft report is included as Appendix VII.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services) at (202) 622-5916.



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*Abbreviations*

ACTC	Additional Child Tax Credit
CCC	Child and Dependent Care Credit
CTC	Child Tax Credit
CY	Calendar Year
DUPTIN database	Duplicate TIN Use Database
EITC	Earned Income Tax Credit
FY	Fiscal Year
IRTF	Individual Return Transaction File
IRS	Internal Revenue Service
IRSN	Internal Revenue Service Number
ITIN	Individual Taxpayer Identification Number
SSN	Social Security Number
TIN	Taxpayer Identification Number
TY	Tax Year



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## *Background*

Any person required to file a tax return is required to include an identifying number, referred to as a Taxpayer Identification Number (TIN). For the majority of filers, the TIN is generally the individual's Social Security Number (SSN). A TIN can also be an Individual Taxpayer Identification Number (ITIN) or an Internal Revenue Service Number (IRSN), which are identifying numbers assigned by the Internal Revenue Service (IRS) when an individual cannot obtain an SSN or there is a problem with an individual's tax account involving the individual's SSN.

***Taxpayer Identification  
Numbers (TIN) are used by  
the IRS to identify taxpayers.  
The most common TIN is a  
Social Security Number.***

Individuals use TINs for themselves, their spouses, and their children on their U.S. Individual Income Tax Returns (Form 1040) to claim certain tax benefits. These benefits include personal exemptions and other tax credits and deductions that reduce the amount of income tax owed.

There are six TIN locations that can be used on a tax return. Figure 1 shows that a TIN may be used for a:

- Primary taxpayer – the individual who is filing the tax return.
- Secondary taxpayer – the spouse of the primary taxpayer.
- Dependent of the individual filing the tax return. An individual can claim up to four dependents on the front of his or her tax return.<sup>1</sup>

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<sup>1</sup> More than four dependents can be claimed, but the taxpayer must attach a statement to his or her tax return.



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**Figure 1: Locations of a TIN on a Form 1040**

**Form 1040** Department of the Treasury—Internal Revenue Service **2007** | IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2007, or other tax year beginning , 2007, ending , 20

OMB No. 1545-0074

**Label** (See instructions on page 12.) Use the IRS label. Otherwise, please print or type.

**Primary Taxpayer** Last name: **Taxpayer** Your social security number: **123456789**

**Secondary Taxpayer** Last name: **Taxpayer** Spouse's social security number: **123456789**

Home address (number and street). If you have a P.O. box, see page 12. Apt. no. **12345**

City, town or post office, state, and ZIP code. If you have a foreign address, see page 12.

Presidential Election Campaign  You  Spouse

**Filing Status**

1  Single  
 2  Married filing jointly (even if only one had income)  
 3  Married filing separately. Enter spouse's SSN above and full name here. **4**  Head of household (with qualifying person). (See page 13.) If the qualifying person is a child but not your dependent, enter this child's name here.  
 5  Qualifying widow(er) with dependent child (see page 14)

**Exemptions**

6a  Yourself. If someone can claim you as a dependent, do not check box 6a  
 b  Spouse

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 15)
<b>John</b>	<b>Dependent 1</b>	<b>123456789</b>	<b>son</b>	<input checked="" type="checkbox"/>
<b>Jack</b>	<b>Dependent 2</b>	<b>123456789</b>	<b>son</b>	<input checked="" type="checkbox"/>
<b>Emily</b>	<b>Dependent 3</b>	<b>123456789</b>	<b>daughter</b>	<input checked="" type="checkbox"/>
<b>Rose</b>	<b>Dependent 4</b>	<b>123456789</b>	<b>mother</b>	<input type="checkbox"/>

d Total number of exemptions claimed **6**

Source: Form 1040.

Generally, a TIN cannot be used to claim a personal exemption or credit on more than one tax return per year. When a TIN is used on more than one tax return, a multiple use occurs and individuals may inappropriately receive tax benefits. For example:

*Taxpayer A and Taxpayer B both file a tax return. Taxpayer A claims a child (child X) as a dependent on his or her tax return and claims the dependent exemption to reduce tax liability. Taxpayer B also claims child X as a dependent and claims the dependent exemption. According to Form 1040 instructions, an individual can only be claimed for the dependent exemption one time in any tax year. Since a dependent exemption can only be claimed once, one of these taxpayers' tax liabilities will be incorrectly reduced as a result of claiming the dependent exemption.*

**The IRS captures every TIN used on individual tax returns and categorizes duplicate TIN uses**

The IRS Duplicate TIN Use (DUPTIN) database captures every TIN used on an individual income tax return. The DUPTIN database scans all individual tax returns and counts how many times a specific TIN is used during the current year. Figure 2 details the categorization that is used when a multiple-use TIN is identified.



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**Figure 2: DUPTIN Database Categorization**

Category	In the Same Tax Year, the TIN Was Used:
<b>1</b>	To claim the Earned Income Tax Credit (EITC) on more than one tax return.
<b>2</b>	For a dependent on more than one tax return.
<b>3</b>	For a primary taxpayer on one tax return and for a secondary taxpayer on another tax return with a filing status of 2 or 6. <sup>2</sup>
<b>4</b>	For a secondary taxpayer on one tax return and for a dependent and/or for EITC on another tax return.
<b>5</b>	For a primary taxpayer and/or a secondary taxpayer and the tax return indicates the individual cannot be claimed as a dependent by someone else, but the TIN has also been used for a dependent on another tax return.
<b>6</b>	For a primary taxpayer with a filing status other than 3 or 4 and was also used for a secondary taxpayer on another tax return with a filing status 3. <sup>3</sup>
<b>7</b>	For a secondary taxpayer more than once or was used for a primary taxpayer more than once from more than one IRS processing center. <sup>4</sup>
<b>8</b>	For a qualifying child more than once on the Form 8839, Form 2441, Form 8863, or Form 8901. <sup>5</sup>
<b>9</b>	For a primary taxpayer more than once within the same data cycle or used for a secondary taxpayer more than once within the same data cycle.

Source: IRS documentation of the DUPTIN database.

**Multiple TIN use continues to grow**

Multiple TIN use has grown from almost 2.2 million TINs used 4.4 million times on 3.9 million tax returns in Tax Year (TY) 2005 to 2.6 million TINs used 5.2 million times on 4.6 million tax returns in TY 2007. Figure 3 shows the volume of TINs used on more than one tax return for TY 2005 through TY 2007.

<sup>2</sup> Filing status 2 is a married taxpayer filing a joint tax return. Filing status 6 is a married taxpayer filing a separate tax return and the spouse is not required to file a tax return.

<sup>3</sup> Filing status 3 is a married taxpayer filing a separate tax return and the spouse is also filing a separate tax return.

Filing status 4 is a taxpayer filing as an unmarried Head of Household.

<sup>4</sup> The IRS Submission Processing sites process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

<sup>5</sup> Child and Dependent Care Expenses (Form 2441), Qualified Adoption Expenses (Form 8839), Education Credits (American Opportunity, Hope, and Lifetime Learning Credits) (Form 8863), and Information on Qualifying Children Who Are Not Dependents (for Child Tax Credit) (Form 8901). Form 8901 was discontinued in TY 2009.



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Figure 3: Multiple TIN Uses for TYs 2005 Through TY 2007

Table with 4 columns: Category, TY 2005, TY 2006, TY 2007. Rows include Unique TINs, Number of Times TINs Were Used, and Number of Tax Returns.

Source: The IRS Individual Return Transaction File (IRTF)6 for TY 2005 through TY 2007.

Prior Treasury Inspector General for Tax Administration reviews identified concerns with IRS identification and resolution of multiple TIN uses

We conducted two prior reviews of the IRS processes to identify and resolve multiple uses of TINs.

\*\*\*\*\*2(f)\*\*\*\*\*

\*\*\*\*\*2(f)\*\*\*\*\*

\*\*\*\*\*7\*\*\*\*\*

\*\*\*\*\*2(f)\*\*\*\*\*

\*\*\*\*\*8\*\*\*\*\*

6 The IRTF contains all edited, transcribed, and error-corrected data from the Form 1040 series and related forms.

7 Duplicate Dependent and Qualifying Child Overclaims Result in Substantial Tax Revenue Losses Each Year (Reference Number 2001-40-059, dated March 15, 2001).

8 Efforts to Prevent Improper Tax Benefits Resulting From Multiple Uses of Taxpayer Identification Numbers Can Be Improved (Reference Number 2006-40-007, dated November 4, 2005).



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\*\*\*\*\*2(f)\*\*\*\*\*. A detailed summary of our audit recommendations and the IRS' corrective actions can be found in Appendix V.

This review was performed at the IRS Wage and Investment Division Headquarters in Atlanta, Georgia, in the Accounts Management function, the Electronic Tax Administration and Refundable Credits function, and the Customer Account Services Submission Processing function. We also conducted testing in the Small Business/Self-Employed Division's Examination function in Washington, D.C. Testing was completed during the period April 2009 through April 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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*Results of Review*

**Efforts Have Been Expanded to Identify and Prevent Revenue Loss From the Multiple Use of Taxpayer Identification Numbers**

The IRS has implemented a number of processes to identify and prevent revenue loss resulting from multiple uses of TINs. Many of these processes were implemented in response to our prior audit reports. These processes include:

- **Expanding Information Captured in the DUPTIN Database:**

The IRS continues to expand on the TINs being captured in the DUPTIN database. This includes capturing dependent TINs found on an Amended U.S. Individual Income Tax Return (Form 1040X) or other correspondence sent to the IRS. In January 2002, the IRS also started capturing student TINs from the Education Credits (American Opportunity, Hope, and Lifetime Learning Credits) (Form 8863). A new tool was also developed to enable IRS employees to edit and correct TIN information in the DUPTIN database.

In addition to expanding the information captured in the DUPTIN database, the IRS has continued to identify uses of this information to prevent erroneous exemptions and credits:

- **Rejecting Electronically Filed Tax Returns When Multiple TIN Uses Are Identified:**

The IRS rejects electronically filed (*e-filed*) tax returns when certain multiple TIN use conditions exist. Figure 4 shows the volume of *e-filed* tax returns rejected for a multiple TIN use for Calendar Year (CY) 2007 to CY 2009.

**Figure 4: Electronically Filed Return Multiple-Use TIN Rejects  
CY 2007 to CY 2009<sup>9</sup>**

	CY 2007	CY 2008	CY 2009
Number of Multiple-Use TIN Rejects	2,653,141	3,101,085	2,949,053

Source: IRS Weekly Error Reject Codes report for CY 2007 through CY 2009.

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<sup>9</sup> CY 2007 data are as of October 21, 2007. CY 2008 data are as of October 20, 2008. CY 2009 data are as of October 20, 2009.



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- **Including Duplicate TINs Used to Claim the EITC in the Audit Scoring Process:**

The IRS uses DUPTIN database information in its audit scoring process to determine if a child's TIN was used more than once to claim the EITC. As a result, the IRS can stop an EITC claim based on a child's TIN that was used inappropriately (more than once) before the refund is issued to the individual.

- **Identifying and Resolving Multiple Primary TIN and Secondary TIN Uses:**

The IRS identifies each tax return for which the primary TIN or the secondary TIN on the tax return has been used as a primary TIN or a secondary TIN on a previously filed tax return. The IRS suspends processing of these tax returns until the multiple TIN use is resolved. In Fiscal Year (FY) 2008, the IRS resolved 66,585 cases involving the duplicate use of the primary TIN or the secondary TIN.

- **Issuing Notices to Individuals Using the Same TINs for Dependents:**

Starting in TY 1996, the IRS began issuing notices to each individual involved in multiple dependent TIN uses. These notices are issued to individuals who are first-time users of a duplicate dependent TIN to claim an exemption, EITC, or Child Tax Credit (CTC) if the TIN has already been used on a tax return for a dependent or primary taxpayer. The notice<sup>10</sup> informs the individual of the multiple dependent TIN use and asks the individual to verify the dependent TIN(s) used on his or her tax return before filing next year's tax return. The notice further encourages individuals to file an amended return (Form 1040X) if they find the use of a dependent TIN was in error.

**Figure 5: Multiple Dependent TIN Letters Issued – CY 2007 to CY 2009**

	CY 2007	CY 2008	CY 2009
Notices Issues	690,764	800,511	589,763

*Source: IRS Notice Gatekeeper web site.*

According to a May 2009 IRS study on the effectiveness of the notices issued for TY 2006, 10 percent of individuals who received notices filed amended tax returns and 92 percent changed their filing behavior in the subsequent tax year. According to the IRS, 294,681 amended returns were filed by individuals who received the notices between TY 2005 and TY 2007.

- **Initiating Audits of Individuals Who Are Involved in the Multiple Use of TINs:**

The IRS has implemented processes to audit tax returns of individuals who use TINs that have been used more than once. These audits occur after the individual has already received a tax benefit inappropriately.

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<sup>10</sup> See Appendix VI for an example of the notices individuals receive.



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**Figure 6: Multiple TIN Audits – FY 2007 to FY 2009**

	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
Audits Closed	54,549	35,437	38,565
Recommended Assessments	\$140 million	\$90 million	\$103 million

Source: IRS Audit Information Management System.

Although the IRS has improved its processes to identify multiple TIN uses and prevent issuance of erroneous tax benefits, there are still significant limitations. As such, multiple TIN use that results in erroneous exemptions and credits is still a substantial problem.

***Multiple Use of Taxpayer Identification Numbers Continues to Result in Significant Erroneous Exemptions and Credits***

Our review determined that individuals inappropriately received at least \$380 million in personal tax exemptions and credits in TY 2007 as a result of the multiple use of TINs. This is due to the inability of the IRS to accurately identify individuals who are improperly using TINs at the time tax returns are processed. Over 5 years, the erroneous exemptions and credits could exceed \$1.9 billion for the types of issues we evaluated. Post-processing activities could potentially recover a portion of the erroneous benefits received.

Our estimate of the dollar amount of erroneous exemptions and credits is for a specific subset of the population of tax returns with a multiple TIN use. Our review included 662,346 of the tax returns with a multiple TIN use. These individuals received tax refunds<sup>11</sup> as a result of their erroneous claims or there was no indication on their tax accounts that the IRS had adjusted any of the items we analyzed (no action was taken based on the multiple TIN use). Our analysis was for those individuals who inappropriately received the personal exemptions or one or more of the five tax credits listed below. The Internal Revenue Code states that each of these tax items can only be claimed for one individual per tax year.

***Multiple uses of TINs resulted in at least \$380 million in erroneous tax exemptions and tax credit claims in TY 2007.***

- CTC<sup>12</sup>
- Additional Child Tax Credit (ACTC)<sup>13</sup>

<sup>11</sup> The credit amount claimed for the EITC and the Additional Child Tax Credit was compared to IRS records to determine if the credit amount had been changed during processing. Refund amounts claimed on returns claiming the Child Tax Credit, Education Credit, Child and Dependent Care Credit, and Exemptions were compared to IRS records.

<sup>12</sup> I.R.C. § 24, 151 and 152.

<sup>13</sup> I.R.C. § 24, 151 and 152.



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- EITC<sup>14</sup>
- Education Credit<sup>15</sup>
- Child and Dependent Care Credit (CCC)<sup>16</sup>

While we focused our analysis based on the above criteria, the overall number of erroneous exemptions and credits resulting from multiple TIN use is a larger population. We identified approximately 2.4 million unique TINs that were used to claim personal exemptions or one or more of the tax credits we analyzed in TY 2007. These TINs were used on over 3.2 million tax returns. The recommendations we made based on our analysis would also reduce erroneous claims in the larger population as well. Figure 7 summarizes the erroneous tax benefit individuals received on the 662,346 tax returns we evaluated.

**Figure 7: Summary of Tax Year 2007 Multiple TIN Uses and Erroneous Benefits  
(Based on Certain Tax Credits/Exemptions)**

Tax Item	Number of Multiple-Use TINs <sup>17</sup>	Number of Times TIN Was Used	Number of Tax Returns <sup>18</sup>	Amount of Erroneous Benefit Received (in millions)
Personal Exemption	245,762	494,066	425,493	\$84.4
Earned Income Tax Credit	171,408	347,393	299,035	\$219.0
Child Tax Credit	65,992	132,267	116,755	\$34.2
Additional Child Tax Credit	123,521	253,494	196,904	\$40.5
Child & Dependent Care Credit	3,033	6,123	5,780	\$1.1
Education Credit	2,300	4,600	4,593	\$1.2
<b>Total Tax Benefit Received Incorrectly</b>				<b>\$380.5<sup>19</sup></b>

Source: TIGTA analysis of the IRS IRTF and Individual Master File<sup>20</sup> for TY 2007.

At the time tax returns are processed, the IRS cannot accurately identify individuals who use TINs they are not entitled to use. Information that would be needed to verify appropriate use of

<sup>14</sup> I.R.C. § 32, 151 and 152.

<sup>15</sup> I.R.C. § 25A, 151 and 152.

<sup>16</sup> I.R.C. § 21, 151 and 152.

<sup>17</sup> Column does not add up to the 396,320 TINs because more than one of the credits listed can be claimed per TIN.

<sup>18</sup> Column does not add up to the 662,346 tax returns because more than one of the credits listed can be claimed per tax return. Also, the total number of TIN uses does not equal the total number of tax returns filed because more than one multiple-use TIN can appear on a tax return.

<sup>19</sup> Column does not add up to the total due to rounding.

<sup>20</sup> IRS database that maintains transactions and records of individual tax accounts.



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TINs is not required to be included with the tax return data individuals presently provide on their tax returns. A complicating factor is that valid uses of a TIN (such as for a qualifying EITC child) cannot always be verified using third-party data.

With the exception of rejecting *e-filed* tax returns, the majority of IRS efforts to reduce erroneous exemptions and credits associated with multiple TIN uses are subsequent to the time that the individuals receive the benefits. Even those individuals whose *e-filed* tax returns are rejected because of multiple TIN uses can subsequently file paper tax returns containing the previously used TINs and receive the erroneous tax benefits. Of the 662,346 TY 2007 tax returns which involved erroneous exemptions and credits as a result of multiple TIN uses, 47 percent (312,898 tax returns) were filed as paper tax returns. Figure 8 shows the volume of *e-filed* versus paper returns.

**Figure 8: Multiple TIN Use Tax Returns – E-Filed Versus Paper – TY 2007**

Number of Tax Returns Filed	Number of E-Filed Returns	Percent E-Filed	Number of Paper Returns	Percent Paper
662,346	349,448	53%	312,898	47%

Source: IRS TY 2007 IRTF.

**The Majority of Multiple TIN Uses Involve Dependent TINs**

The majority of multiple TIN uses involve dependent TINs, which further complicates the problem of identifying the individuals who are not entitled. In the approximately 2 million multiple dependent uses we identified in TY 2007, 96 percent involve 2 individuals claiming the same dependent. These cases frequently involve two parents or close relatives claiming the same child or children on their tax returns. Figure 9 provides a breakdown of the types of multiple TIN uses we identified.

**Figure 9: Combinations of Multiple TIN Uses**

TIN Use Combination	TY 2005	TY 2006	TY 2007
Primary - Primary	35,574	39,448	41,444
Primary - Secondary	122,465	135,285	239,430
Primary - Dependent	2,043,302	1,813,181	2,788,367
Secondary - Secondary	23,114	19,772	18,143
Secondary - Dependent	167,170	150,987	238,451
Dependent - Dependent	2,090,070	1,890,850	1,995,781

Source: Analysis of the IRS IRTF for TY 2005 through TY 2007.



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## *Multiple Use of Taxpayer Identification Numbers Continues to Result in Significant Erroneous Exemptions and Credits*

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We recognize the difficulty that the IRS faces in preventing erroneous exemptions and credits associated with multiple TIN uses. However, there are additional actions the IRS can take to reduce erroneous claims. These include:

- Expanding the issuance of notices to other segments of individuals involved with multiple TIN uses.
- Initiating additional compliance efforts on multiple TIN uses for erroneous EITC claims.
- Disallowing multiple uses of IRS-issued identification numbers.
- Initiating compliance efforts to prevent the abusive use of TINs (TINs used on **2(f)** or more tax returns).

### **Expanding the issuance of notices to other segments of individuals involved with multiple TIN uses**

As noted previously, the IRS issues a notice to an individual who uses a dependent TIN on a tax return that has already been used as a dependent TIN on another tax return. A May 2009 IRS study of the use of these notices indicates that the notices are effective at changing behavior. According to the study:

- Ten percent of the individuals amended their original TY 2006 tax returns for a \$2.6 million change in tax and \$6.5 million in reduced EITC payments.
- Ninety-two percent of the individuals either did not file subsequent year tax returns or did not use the TINs in question on their subsequent year tax returns. The IRS estimated that it prevented \$346.7 million in erroneous claims in TY 2007 as a result of notices issued in TY 2006.

Despite the success of the issuance of notices, the IRS has not expanded issuance to:

- Individuals involved in the multiple use of TINs to claim the **2(f)** on more than one tax return. In TY 2007, there were 127,978 TINs used 264,217 times to claim these credits, with each TIN being used at least twice.
- Individuals involved in the multiple use of TINs as both a **2(f)** TIN on one tax return and a **2(f)** TIN on another tax return. In TY 2007, there were 116,182 TINs used 238,451 times, with each TIN used as both a **2(f)** TIN and a **2(f)** TIN.

### **Recommendation**

**Recommendation 1:** The Commissioner, Wage and Investment Division, should revise the criteria used to determine who will receive a notice to include individuals identified by the DUPTIN database when:



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- A TIN is used as a \*\*\*2(f)\*\*\*taxpayer on one tax return and as a \*\*\*2(f)\*\*\*and/or for \*\*\*2(f)\*\*\* on another tax return.
- A TIN is used as a qualifying child for the \*\*\*\*\*2(f)\*\*\*\*\* , and \*\*\*2(f)\*\*\*.

**Management’s Response:** IRS management disagrees with the recommendation to revise the criteria used to determine who will receive a notice to include individuals identified by the DUPTIN database when a TIN is used as a \*\*\*2(f)\*\*\* taxpayer on one tax return and as a \*\*\*2(f)\*\*\*\*\* on another tax return. Issuing notices to taxpayers in this situation would result in inconsistent treatment because the IRS does not reject electronic returns in the reverse situation. Currently, returns are not rejected when the same TIN is used as a \*\*\*2(f)\*\*\*\*\* on a tax return and then subsequently used for a \*\*\*\*\*2(f)\*\*\*\*\* on another tax return. This procedure is consistent with a prior Treasury Inspector General for Tax Administration recommendation.

The IRS agrees the multiple use of a TIN for the \*\*\*\*\*2(f)\*\*\*\*\* results in improper payments. Issuance of current soft notices include taxpayers who have claimed duplicated dependents and the related credits for those dependents, such as the \*\*\*\*\*2(f)\*\*\*\*\*. The IRS will conduct an analysis of the multiple use of a TIN to claim a qualifying child for the \*\*\*2(f)\*\*\*\*\* \*\*\*\*\*2(f)\*\*\*\*\* to validate the effectiveness of the treatment of this segment in the current soft notice population. Based on the analysis, the IRS will determine if there are gaps in its current strategy and, if so, the IRS will develop an appropriate plan to enhance the current soft notice strategy.

**Office of Audit Comment:** Issuing a notice to individuals when a TIN is used as a \*\*\*2(f)\*\*\* taxpayer on one tax return and a \*\*\*2(f)\*\*\*\*\* on another tax return is consistent with IRS’ current notice issuance processes. For example, the IRS issues a notice to individuals when a TIN is used as a \*\*\*2(f)\*\*\*taxpayer on one tax return and a \*\*\*2(f)\*\*\* taxpayer on another tax return. In addition, we are concerned that additional IRS analysis to determine if there are gaps in its current strategy for issuing soft notices may be duplicative. We identified and reported on existing gaps in our report. Our recommendation to revise the notice criteria to include individuals identified by the DUPTIN database when a TIN is used as a qualifying child for the \*\*\*2(f)\*\*\*\*\* \*\*\*\*\*2(f)\*\*\*\*\*addresses these gaps.

**Initiating additional compliance efforts on multiple TIN uses for erroneous EITC claims**

Our analysis of the 662,346 TY 2007 tax returns with erroneous exemptions and credits as a result of multiple TIN use showed that 45 percent (299,035 tax returns) involved the multiple use



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of TINs for the purpose of erroneously claiming the EITC. These individuals improperly received an estimated \$219 million in EITC claims (See Figure 8 on page 10).

In November 2009, the President signed an executive order aimed at reducing improper payments. The purpose of the order was to intensify efforts to eliminate payment error, waste, fraud, and abuse in the major Federal programs while continuing to ensure those programs serve their intended beneficiaries. Agencies were ordered to make every effort to confirm the right recipient receives the right payment. The Office of Management and Budget has designated the EITC as one of the Federal programs for which the highest dollar value or majority of Government-wide improper payments occur. According to the IRS, approximately \$10 to \$12 billion in erroneous EITC claims is paid annually.

Although we identified 299,035<sup>21</sup> tax returns that erroneously received the EITC, the IRS only conducts a small number of audits of these tax returns. In FY 2009, the IRS closed **2(f)** audits of multiple TIN use EITC claims. The IRS' decision not to examine each tax return involved in a multiple TIN use to claim the EITC results in improper payment of EITC claims since only one individual is allowed to claim each TIN for the EITC. Payments resulting from these multiple TIN uses are the type of improper payments the November 2009 Executive Order was intended to stop.

### ***Recommendation***

**Recommendation 2:** The Commissioner, Wage and Investment Division, should identify alternative compliance processes that will include all individuals claiming the EITC with TINs that were used on other tax returns to claim the EITC.

**Management's Response:** IRS management generally agrees with this recommendation. The IRS will continue to identify and test alternative compliance processes for individuals claiming the EITC with children's TINs used on other EITC returns. The IRS currently addresses EITC multiple claims in the year the credit is claimed by conducting approximately 19,000 audits, about 4 percent of its total EITC examinations. The IRS plans to continue to explore new ways that may effectively improve compliance and further reduce improper payments in this area.

### **Disallowing multiple uses of IRS-issued identification numbers**

The IRS issues ITINs to individuals; however, it has not developed processes to identify individuals who are incorrectly using these numbers to claim **2(f)** or tax credits. Our analysis of the 662,346 TY 2007 tax returns involving erroneous **2(f)** and credits as a

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<sup>21</sup> This number identifies all tax returns involved in the multiple TIN uses to claim the EITC, including the tax returns entitled to claim the TINs. For example, if three tax returns claimed the same TIN for the EITC, only one of the tax returns would be entitled to claim the TIN for the EITC and the remaining two tax returns would not.



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result of a multiple TIN use showed that 2 percent (12,041 tax returns) involved multiple uses of an ITIN. These individuals used 8,008 ITINs and received an estimated \$5.3 million in **2(f)** or tax credits included in our analysis.

The IRS is responsible for issuing ITINs to individuals who are required to file a tax return but who do not have and are not eligible to obtain an SSN (i.e., resident and nonresident aliens) can apply for an ITIN. An individual assigned an ITIN is required to submit documentation to the IRS for use in verifying the identity of the individual. To obtain an ITIN, the individual, spouse, or qualifying dependent must complete an Application for IRS Individual Taxpayer Identification Number (Form W-7). The individual must also provide an original, certified, or notarized copy of an unexpired passport to verify identity and foreign status. If the individual does not have a passport, he or she must provide a combination of two or more current and unexpired documents. Medical and school records can be used to establish foreign status for dependents under the age of 14 (18 if a student) only if they are foreign documents. All supporting documentation must show the individual's name and support the claim of foreign status. At least one document must contain the individual's photograph.<sup>22</sup>

During tax return processing, the **2(f)**. The IRS should use the data it collects from individuals during the ITIN assignment process to identify multiple-use ITINs and the filers who were not entitled to use them.

**Recommendation**

**Recommendation 3:** The Commissioner, Wage and Investment Division, should implement a process to identify filers involved in the multiple use of ITINs who were not entitled to use them and prevent and/or recover erroneous claims for **2(f)** and tax credits.

**Management's Response:** IRS management disagreed with this recommendation. The IRS has processes in place to identify filers involved in the multiple use of ITINs who were not entitled to use them and to prevent and/or recover erroneous claims for exemption and tax credits. Current programming already performs the same checks for ITINs as those performed for SSNs. Compliance efforts related to filers with ITINs are comparable to those in place for SSN filers, including issuance of targeted soft notices. **2(f)**. As additional compliance processes are developed for taxpayers with SSNs, the IRS will ensure those efforts also address taxpayers who file tax returns or claim dependents using an ITIN.

<sup>22</sup> Photographs are not required for dependents under age 14 or under age 18 if a student.



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**Office of Audit Comment:** Management’s comparison of an ITIN to a SSN does not address two primary differences. The IRS does not issue an SSN, and the primary data available with regard to an SSN\*\*\*\*\*2(f)\*\*\*\*\*. The IRS is the agency that issues the ITIN. The issuance is based on extensive information required to be provided by individuals who apply for an ITIN. As such, the IRS should have the ability to identify individuals using an ITIN to which they are not entitled. The IRS should have processes to use the information it has available to prevent the use of an ITIN for erroneous claims for \*\*\*\*2(f)\*\*\*\*\* and tax credits. The IRS also stated that taxpayer situations with regard to dependents often change, limiting the effectiveness of the use of this data to accurately identify entitled or nonentitled individuals at the same time the tax return is processed. At no time during our review did the IRS provide information in support of this conclusion.

**Initiating compliance efforts to prevent the abusive use of TINs (TINs used on\*\*2(f)\*\* or more tax returns)**

Our analysis of the 662,346 TY 2007 tax returns involving erroneous exemptions and credits as a result of multiple TIN uses showed that 5 percent (32,989 tax returns) involved TINs that were used on 3 or more tax returns. These individuals received an estimated \$34 million in personal exemptions or tax credits included in our analysis. For example, we identified 2 TINs with over 1,000 attempted uses each in TYs 2005 through TY 2007.<sup>23</sup> Figure 10 provides a breakdown of the frequency of TIN use for all TINs used more than once in TY 2005 through TY 2007.

**Figure 10: Frequency of Multiple TIN Uses**

Number of Times a TIN Was Used	TY 2005	TY 2006	TY 2007
2	2,155,744	1,946,434	2,576,166
3	30,791	28,315	33,372
4	3,260	3,309	2,593
5 or More	2,373	2,224	1,437
<b>Highest Number of Uses for One TIN</b>	2,528	2,353	1,801

Source: Analysis of the IRS IRTF for TY 2005 through TY 2007.

Duplicate use could be caused by parents who were not filing jointly and were both claiming their child as a dependent. In our opinion, the potential for fraud rises when the multiple use of

<sup>23</sup> Our analysis determined that individuals did not receive the personal exemption or any of the five tax credits we received by using these TINs. However, we did not evaluate all possible tax benefits available.



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the TIN increases to more than two uses because it is less likely to result from a misunderstanding or a child custody dispute. The filing locations of tax returns with multiple-use TINs were sometimes concentrated into a specific geographical location. For example, we identified 223 unique TINs that were used on 314 TY 2007 tax returns that were all filed from 160 different addresses within the same city.<sup>24</sup>

Our review of the IRS' controls to identify and prevent multiple TIN uses showed that the IRS has a control to identify TINs that are used more than **2(f)** times. However, it does not appear any actions are taken on these cases. According to IRS management's response to our prior audit report recommendations,<sup>25</sup> tax returns with TINs that have been used more than **2(f)** times are to be referred to the IRS' Criminal Investigation function for review. **2(f)**\*\*\*\*\*  
\*\*\*\*\*2(f)\*\*\*\*\*.

### **Recommendation**

**Recommendation 4:** The Commissioner, Wage and Investment Division, and the Chief, Criminal Investigation, should establish processes to prevent and/or recover tax benefits erroneously provided to taxpayers when a TIN is used more than **2(f)** times in a single tax year.

**Management's Response:** IRS management agrees with this recommendation. The IRS Wage and Investment Division will partner with the Criminal Investigation function to develop processes to implement referral procedures for the most egregious instances (**2(f)** or more) of multiple TIN uses. The Criminal Investigation function will review these instances to determine investigative and prosecutorial potential. When applicable, the Wage and Investment Division will pursue adding compliance treatment streams for these multiple TIN uses, and implement the necessary pre-refund compliance strategies to review any future uses of that TIN.

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<sup>24</sup> More than one multiple-use TIN can appear on a single tax return.

<sup>25</sup> *Duplicate Dependent and Qualifying Child Overclaims Result in Substantial Tax Revenue Losses Each Year* (Reference Number 2001-40-059, issued March 15, 2001).



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## Appendix I

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to assess the effectiveness of the IRS' identification of multiple uses of TINs and its ability to prevent individuals from inappropriately receiving tax benefits as a result of the improper use of TINs. To accomplish our overall objective, we:

- I. Identified controls used by the IRS to identify and resolve multiple uses of TINs. We evaluated the adequacy of those controls in identifying and resolving the types of multiple TIN uses we identified in Step II.
- II. Identified 2,613,568 unique TINs used on the front of 4,622,707 TY 2007 Forms 1040 filed during CY 2008.<sup>1</sup> Our extract did not include TINs that were used on attached tax forms and schedules; TINs used on more than one tax return where the dependency indicator showed the individual could be claimed as a dependent on someone else's tax return; or secondary TINs when filing status 3 was used, indicating the taxpayer is filing as married filing a separate tax return and the spouse is also filing a separate tax return. We categorized the TINs uses by type of use.
  - Primary-Primary
  - Secondary-Secondary
  - Dependent-Dependent
  - Primary-Dependent
  - Primary-Secondary
  - Secondary-Dependent
- III. Quantified the erroneous exemptions and credits for TINs used for both a primary taxpayer and secondary taxpayer, for both a primary taxpayer and a dependent, and for both a secondary taxpayer and a dependent used to claim the Education Credit and/or personal exemption. We quantified the erroneous exemptions and credits for TINs used as a dependent on at least two tax returns to claim an exemption and/or the tax items listed in the bullets below.<sup>2</sup> For the CTC, CCC, Education Credit, and personal exemptions, our analysis was limited to only those tax returns that received a refund. For the EITC and the ACTC, we determined whether the credit amount had been changed during processing regardless of whether there was a refund on the tax return.

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<sup>1</sup> See data validation methodology on the next page for a discussion of the source of this extract and the steps taken to verify the accuracy of these data.

<sup>2</sup> We chose not to perform additional analysis of the multiple TIN uses in the primary-primary and secondary-secondary categories based on the volume of uses in these categories.



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- EITC
  - CTC
  - ACTC
  - CCC
  - Education Credit
  - Personal exemption
- A. Identified 396,320 unique TINs that were used on 662,346 tax returns in TY 2007 that received tax benefits in error by determining if the IRS adjusted the tax items in the bullets above during return processing. We assumed the IRS had not adjusted the tax return for the multiple-use TINs if the taxpayers' figures on the tax returns for the EITC and the ACTC matched the figures on the Master File.<sup>3</sup> For the remaining tax credits and personal exemptions<sup>4</sup> that did not have separate transactions on the Master File, we determined if the refund amounts on the tax returns matched the refund amounts on the Master File.
- B. Quantified the tax credits received in error by identifying the portion of the tax credits associated with each multiple-use TIN. A TIN may be used once a year to claim each of the tax credits we reviewed; therefore, to be conservative, we assumed the TIN use with the highest value for each credit was the valid use.
- C. Quantified the value of the tax exemptions received in error. Because a TIN may be used once a year to claim the personal exemption, we did not include the value for one use of each TIN in our estimated outcome. Again to be conservative, we multiplied the total exemption for each additional use of a TIN by 10 percent to limit the tax effect estimate of the exemption amount to the lowest available tax bracket.
- D. Analyzed the characteristics of the multiple-use TINs we identified. We determined if the TINs were issued by the IRS. We also determined how tax returns containing multiple-use TINs were filed.

**Data validation methodology**

During the course of this review, we relied on data extracted from the IRS' IRTF<sup>5</sup> for TY 2007. We extracted all TINs used in the six TIN positions on the front of the Form 1040. Our extract did not include those TINs listed on supporting tax forms and schedules filed with the Form 1040. Our extract also did not include additional dependents claimed by the taxpayer that could not be listed on the front of the tax return.

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<sup>3</sup> The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

<sup>4</sup> To determine the exemption amount on the Master File, we multiplied the TY 2007 individual exemption amount by the number of exemptions shown on the Master File.

<sup>5</sup> The IRTF contains all edited, transcribed, and error-corrected data from the Form 1040 series and related forms.



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We validated the accuracy of the data extracted by verifying the accuracy of the individual data elements captured to the source data. We then analyzed these data to identify TINs that had been used on more than one tax return. We did not consider a TIN used as a primary TIN on one tax return and as a dependent on another tax return a multiple-use TIN when the dependency indicator showed the taxpayer could be claimed as a dependent. We reconciled the results of this analysis to the IRS' DUPTIN database. This reconciliation ensured that we had captured all of the multiple TIN uses we had intended to capture and that additional uses were not overlooked when extracting our data. Based on our data validation efforts, we determined the IRTF data extract and our identification of multiple TIN uses for TY 2007 were reliable.

**Internal controls methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: IRS *e-file* reject controls, paper tax return processing controls to identify and resolve multiple TIN uses, and the DUPTIN database. Our review assessed the adequacy of the internal control structure designed to identify and resolve multiple TIN uses before tax benefits are paid to individuals. As such, we evaluated the control structure in place to identify weak or missing controls that would allow tax benefits to be paid to individuals inappropriately. We did not test the effectiveness of the individual controls in this review.



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**Appendix II**

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**Appendix III**

*Report Distribution List*

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    Chief, Program Evaluation and Improvement, Wage and Investment Division  
    SE:W:S:PRA:PEI  
    Director, Planning and Strategy, Criminal Investigation SE:CI:S:PS



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## Appendix IV

### *Outcome Measures*

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

#### **Type and Value of Outcome Measure:**

- Funds Put to Better Use – Potential; \$1,094,862,725 in EITC paid in error over the next 5 years as a result of multiple TIN uses (see page 8).

#### **Methodology Used to Measure the Reported Benefit:**

We identified 396,320 TINs that were used more than once on 662,346 TY 2007 tax returns. Our analysis indicates the IRS did not make adjustments to these 662,346 tax returns during return processing.

We analyzed the 662,346 tax returns and found that 299,035 tax returns contained TINs that were used more than once on the Earned Income Credit (Schedule EIC) to claim the EITC. The Internal Revenue Code<sup>1</sup> states that an individual can only be used once in each tax year for the purposes of claiming the EITC.

To determine the amount of the EITC claimed on each of the 299,035 tax returns for the multiple-use TIN, we computed the total EITC allowed by summing the EITC per computer amount on the IRTF<sup>2</sup> for each of the 299,035 tax returns. We determined that the EITC claims on these 299,035 tax returns totaled \$806,519,333.

Using the taxpayer's Adjusted Gross Income, we estimated the amount of EITC allowable for each child claimed for the EITC on the tax return that did not have a multiple-use TIN. Figure 1 shows the percentage of the total EITC claim we estimated for non-multiple-use TINs by Adjusted Gross Income. Using these percentages, we estimate \$244,316,124 in EITC claimed on the 299,035 tax returns was associated with a non-multiple-use TIN.

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<sup>1</sup> I.R.C. § 32, 151 and 152.

<sup>2</sup> File of Individual Tax Returns processed by the IRS.



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**Figure 1: Percentage of EITC Allowed for Non-Multiple-Use TINs**

<b>Adjusted Gross Income</b>	<b>Percent Used to Estimate EITC for Non-Multiple-Use TINs</b>
\$5,000 or less	85%
\$5,000.01 to \$10,000	78%
\$10,000.01 to \$15,000	66%
\$15,000.01 to \$20,000	59%
\$20,000.01 to \$25,000	54%
\$25,000.01 to \$30,000	44%
Over \$30,000	36%

*Source: TIGTA analysis of 2007 Publication 596, Earned Income Credit (EIC), Earned Income Credit Table.*

We subtracted the estimated amount of EITC associated with a non-multiple-use TIN on each tax return from the total EITC claimed to determine the amount of EITC associated with the multiple-use TIN on that tax return. We estimate \$562,203,209 (\$806,519,333 - \$244,316,124) in EITC claims on the 299,035 tax returns were associated with a multiple-use TIN.

Since an individual can use a TIN once a year to claim the EITC, we estimated the amount of EITC that was claimed properly for each multiple-use TIN. In an effort to ensure our estimate was not overstated, we determined the largest amount of EITC claimed for each multiple-use TIN for the 299,035 tax returns and subtracted this amount. We estimate the total amount of EITC claims would be \$343,230,664 if the multiple-use TIN had only been used one time.

We estimate \$218,972,545 (\$562,203,209 - \$343,230,664) in EITC claims associated with multiple-use TINs on 299,035 TY 2007 tax returns was paid in error. We estimate the amount of EITC claims paid in error as a result of multiple TIN uses over the next 5 years will total \$1,094,862,725.

**Type and Value of Outcome Measure:**

- Funds Put to Better Use – Potential; \$202,735,975 in ACTC paid in error over the next 5 years as a result of multiple TIN uses (see page 8).

**Methodology Used to Measure the Reported Benefit:**

We identified 396,320 TINs that were used more than once on 662,346 TY 2007 tax returns. Our analysis indicates the IRS did not make adjustments to these 662,346 tax returns during return processing.



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We analyzed the 662,346 tax returns and found that 196,904 tax returns contained TINs that were used more than once to claim the ACTC. The Internal Revenue Code<sup>3</sup> states that an individual can only be used as a dependent once in each tax year for the purposes of claiming the ACTC.

To determine the amount of the ACTC claimed on each of the 196,904 tax returns for the multiple-use TIN, we computed the total ACTC allowed by summing the ACTC per computer amount on the IRTF for each of the 196,904 tax returns. We determined the ACTC claims on these 196,904 tax returns totaled \$197,480,169.

For those tax returns that also used non-multiple-use TINs to claim the ACTC, we estimated the amount of the ACTC associated with the non-multiple-use TIN. We determined the number of dependents claimed for the CTC<sup>4</sup> on each tax return. Then we calculated the difference between the total number of dependents claimed for the CTC and the number of multiple-use TINs used for the ACTC on each tax return. We used the following formula to calculate the percentage of ACTC associated with the non-multiple-use TIN for each tax return.

$$\frac{\text{Number of CTC Dependents} - \text{Number of Multiple-Use TINs}}{\text{Number of CTC Dependents}}$$

We multiplied the total ACTC claimed on each tax return by the percentage of ACTC for non-multiple-use TINs to determine the amount of ACTC claimed for non-multiple-use TINs. We estimate \$80,099,714 in ACTC claimed on the 196,904 tax returns was associated with a non-multiple-use TIN. We then subtracted this amount from the total ACTC claimed on the 196,904 tax returns to compute the amount of ACTC claimed for multiple-use TINs. Using this method, we estimate \$117,380,454 in ACTC claims for multiple-use TINs.

Since an individual can use a TIN once a year to claim the ACTC, we estimated the amount of ACTC that was claimed properly for each multiple-use TIN. In an effort to ensure our estimate was not overstated, we determined the largest amount of ACTC claimed for each multiple-use TIN for the 196,904 tax returns and subtracted this amount. We estimate the total amount of ACTC claims would be \$76,833,259 if the multiple-use TIN had only been used one time.

We estimate \$40,547,195 (\$117,380,454 - \$76,833,259) in ACTC claims associated with a multiple-use TIN on 196,904 TY 2007 tax returns were paid in error. We estimate the amount of ACTC claims paid in error as a result of a multiple TIN use over the next 5 years will total \$202,735,975.

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<sup>3</sup> I.R.C. § 24, 151 and 152.

<sup>4</sup> The ACTC uses the same dependents as the CTC.



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**Type and Value of Outcome Measure:**

- Revenue Protected – Potential; \$171,246,930 in erroneous CTC paid over the next 5 years as a result of multiple TIN uses (see page 8).

**Methodology Used to Measure the Reported Benefit:**

We identified 396,320 TINs that were used more than once on 662,346 TY 2007 tax returns. Our analysis indicates the IRS did not make adjustments to these 662,346 tax returns during return processing.

We analyzed the 662,346 tax returns and found that 116,755 tax returns contained TINs that were used more than once to claim the CTC. The Internal Revenue Code<sup>5</sup> states that an individual can only be used once in each tax year for the purposes of claiming the CTC.

To determine the amount of the CTC claimed on each of the 116,755 tax returns for the multiple-use TIN, we computed the total CTC allowed by summing the CTC per computer amount on the IRTF for each of the 116,755 tax returns. We determined the CTC claims on these 116,755 tax returns totaled \$126,477,186.

For those tax returns that also used non-multiple-use TINs to claim the CTC, we estimated the amount of CTC associated with the non-multiple-use TIN. We determined the number of dependents claimed for the CTC on each tax return. We then calculated the difference between the total number of dependents claimed for the CTC and the number of multiple-use TINs used for the CTC on each tax return. We used the following formula to calculate the percentage of CTC associated with the non-multiple-use TIN for each tax return.

$$\frac{\text{Number of CTC Dependents} - \text{Number of Multiple-Use TINs}}{\text{Number of CTC Dependents}}$$

We multiplied the total CTC claimed on each tax return by the percent of CTC for non-multiple-use TINs to determine the amount of CTC claimed for non-multiple-use TINs. We estimate \$36,447,269 in CTC claimed on the 116,755 tax returns was associated with non-multiple-use TINs. We then subtracted this amount from the total CTC claimed on the 116,755 tax returns to compute the amount of CTC claimed for multiple-use TINs. Using this method, we estimate \$90,029,918 in CTC claims for multiple-use TINs.

Since an individual can use a TIN once a year to claim the CTC, we estimated the amount of CTC that was claimed properly for each multiple-use TIN. In an effort to ensure our estimate was not overstated, we determined the largest amount of CTC claimed for each multiple-use TIN for the 116,755 tax returns and subtracted out this amount. We estimate the total amount of CTC claims would be \$55,780,532 if the multiple-use TIN had only been used one time.

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<sup>5</sup> I.R.C. § 24, 151 and 152.



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*Multiple Use of Taxpayer Identification  
Numbers Continues to Result in Significant  
Erroneous Exemptions and Credits*

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We estimate \$34,249,386 (\$90,029,918 - \$55,780,532) in CTC claims associated with a multiple-use TIN on 116,755 TY 2007 tax returns was paid in error. We estimate the amount of CTC claims paid in error as a result of multiple TIN use over the next 5 years will total \$171,246,930.

**Type and Value of Outcome Measure:**

- Revenue Protected – Potential; \$5,748,975 in erroneous CCC paid in error over the next 5 years as a result of multiple TIN uses (see page 8).

**Methodology Used to Measure the Reported Benefit:**

We identified 396,320 TINs that were used more than once on 662,346 TY 2007 tax returns. Our analysis indicates the IRS did not make adjustments to these 662,346 tax returns during return processing.

We analyzed the 662,346 tax returns and found that 5,780 tax returns contained TINs that were used more than once to claim the CCC. The Internal Revenue Code<sup>6</sup> states that an individual can only be used once in each tax year for the purposes of claiming the CCC.

To determine the amount of the CCC claimed on each of the 5,780 tax returns for the multiple-use TIN, we computed the total CCC allowed by summing the CCC per computer amount on the IRTF for each of the 5,780 tax returns. We determined the CCC claims on these 5,780 tax returns totaled \$3,495,382.

For those tax returns that also used non-multiple-use TINs to claim the CCC, we estimated the amount of CCC associated with the non-multiple-use TIN. We summed the amount of child and dependent care expenses for each child claimed on Child and Dependent Care Expenses (Form 2441) and calculated the percentage of total expenses related to each child.

$$\frac{\text{Child and Dependent Care Expenses per Child}}{\text{Total Child and Dependent Care Expenses}}$$

Using the percentage of child and dependent care expenses computed above, we determined the amount of expenses attributable to non-multiple-use TINs claimed on each tax return. For example, if dependent 2 was the non-multiple-use TIN, we multiplied the total child and dependent care expenses by the percentage of expenses for dependent 2. We estimate \$574,598 in CCC claimed on the 5,780 tax returns was associated with non-multiple-use TINs. This allowed us to prorate the total expenses in those instances where the taxpayer was not entitled to the full CCC.

We subtracted the estimated amount of CCC associated with a non-multiple-use TIN on each tax return from the total CCC claimed to determine the amount of CCC associated with the

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<sup>6</sup> I.R.C. § 21, 151 and 152.



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*Multiple Use of Taxpayer Identification  
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multiple-use TIN on that tax return. We estimate \$2,920,784 (\$3,495,382 - \$574,598) in CCC claims on the 5,780 tax returns was associated with multiple-use TINs.

Since an individual can use a TIN once a year to claim the CCC, we estimated the amount of CCC that was claimed properly for each multiple-use TIN. In an effort to ensure our estimate was not overstated, we determined the largest amount of CCC claimed for each multiple-use TIN for the 5,780 tax returns and subtracted this amount out. We estimate the total amount of CCC claims would be \$1,770,989 if the multiple-use TINs had only been used one time.

We estimate \$1,149,795 (\$2,920,784 - \$1,770,989) in CCC claims associated with multiple-use TINs on 5,780 TY 2007 tax returns was paid in error. We estimate the amount of CCC claims paid in error as a result of multiple TIN use over the next 5 years will total \$5,748,975.

**Type and Value of Outcome Measure:**

- Revenue Protected – Potential; \$5,969,575 in erroneous Education Credits paid over the next 5 years as a result of multiple TIN uses (see page 8).

**Methodology Used to Measure the Reported Benefit:**

We identified 396,320 TINs that were used more than once on 662,346 TY 2007 tax returns. Our analysis indicates the IRS did not make adjustments to these 662,346 tax returns during return processing.

We analyzed the 662,346 tax returns and found that 4,593 tax returns contained TINs that were used more than once to claim the Education Credits. The Internal Revenue Code<sup>7</sup> states that an individual can only be used once in each tax year for the purposes of claiming the Education Credits.

To determine the amount of the Education Credits claimed on each of the 4,593 tax returns for the multiple-use TIN, we computed the total Education Credits allowed by summing the Education Credits per computer amount on the IRTF for each of the 4,593 tax returns. We determined the Education Credit claims on these 4,593 tax returns totaled \$4,406,747.

For those tax returns that also used non-multiple-use TINs to claim the Education Credits, we estimated the amount of credit associated with the non-multiple-use TIN. We computed the percentage of non-multiple-use TINs used to claim the Education Credits on Education Credits (American Opportunity, Hope, and Lifetime Learning Credits) (Form 8863) using the formula below.

$$\frac{\text{Total Number of TINs} - \text{Number of Multiple-Use TINs}}{\text{Total Number of TINs}}$$

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<sup>7</sup> I.R.C. § 25A, 151 and 152.



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*Multiple Use of Taxpayer Identification  
Numbers Continues to Result in Significant  
Erroneous Exemptions and Credits*

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We multiplied the total Education Credits on Forms 8863 by the percentage of non-multiple-use TINs to determine the amount of Education Credits claimed for non-multiple-use TINs. We estimate \$475,829 in Education Credits claimed on the 4,593 tax returns was associated with a non-multiple-use TIN. We then subtracted this amount from the total Education Credits claimed on the 4,593 tax returns to compute the amount of Education Credits claimed for multiple-use TINs. Using this method, we estimate \$3,930,917 in Education Credits was claimed for multiple-use TINs.

Since an individual can use a TIN once a year to claim the Education Credits, we estimated the amount of Education Credits that were claimed properly for each multiple-use TIN. In an effort to ensure our estimate was not overstated, we determined the largest amount of Education Credits claimed for each multiple-use TIN for the 4,593 tax returns and subtracted this amount. We estimate the total amount of Education Credits would be \$2,737,002 if the multiple-use TIN had only been used one time.

We estimate \$1,193,915 (\$3,930,917 - \$2,737,002) in Education Credit claims associated with a multiple-use TIN on 4,593 TY 2007 tax returns was paid in error. We estimate the amount of Education Credit claims paid in error as a result of multiple TIN use over the next 5 years will total \$5,969,575.

**Type and Value of Outcome Measure:**

- Revenue Protected – Potential; \$422,116,800 tax effect for personal exemptions allowed in error over the next 5 years as a result of multiple TIN uses (see page 8).

**Methodology Used to Measure the Reported Benefit:**

We identified 396,320 TINs that were used more than once on 662,346 TY 2007 tax returns. Our analysis indicates the IRS did not make adjustments to the tax items we reviewed on these 662,346 tax returns during return processing.

We analyzed the 662,346 tax returns and found that 425,493 tax returns contained TINs that were used more than once to claim personal exemptions. The Internal Revenue Code<sup>8</sup> states that an individual can only be used once in each tax year for the purposes of claiming a personal exemption.

To determine the amount of the personal exemptions claimed on each of the 425,493 tax returns with a multiple-use TIN, we multiplied each use of a multiple-use TINs claimed on the tax return by the TY 2007 exemption amount (\$3,400). Since an individual can use a TIN once a year to claim the personal exemption, we estimated the amount of personal exemption that was claimed properly for each multiple-use TIN. To do so, we determined the largest amount of personal exemption for each multiple-use TIN for the 425,493 tax returns and subtracted this amount from

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<sup>8</sup> I.R.C. § 151 and 152.



*Multiple Use of Taxpayer Identification  
Numbers Continues to Result in Significant  
Erroneous Exemptions and Credits*

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the total potential exemptions at risk. We then multiplied the remaining estimated exemptions for multiple-use TINs by the lowest available tax bracket (10 percent). This resulted in an estimate of \$340 per multiple TIN use. Using this methodology, we estimate the total tax effect of the improper personal exemptions for multiple TIN uses on 425,493 TY 2007 tax returns was \$84,423,360. We estimate the tax effect of these improper exemptions as a result of multiple TIN use over the next 5 years will total \$422,116,800.





*Multiple Use of Taxpayer Identification  
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**Appendix VI**

*Soft Notice Sent to First-Time Multiple  
Taxpayer Identification Number Users*

{NOTICE SEQUENCE #}	{ZIP CODE}	{DOCUMENT LOCATOR #}	{CYCLE}	{CP #}
 <b>IRS</b> Department of the Treasury Internal Revenue Service		{BOD/BODCLIENT CODE}	Notice Date: {NOTICE DATE}	
{INQUIRY 2ND NAME LINE}			Notice Number: CP87C	
{INQUIRY 3RD NAME LINE}			Taxpayer Identification Number: {TAXPAYER IDENTIFICATION #}	
			Tax Form: {TAX FORM}	
			Period Ending: {TAX PERIOD}	
			For assistance, call: {TELEPHONE # LINE ONE}	
			{TELEPHONE # LINE TWO}	
{FIRST NAME LINE}				
{SECOND NAME LINE}				
{THIRD NAME LINE}				
{FOURTH NAME LINE}				

**You Need To Make Sure  
Someone Qualifies as Your Dependent**

**Why We're Sending You This Letter**

We're sending you this letter because you need to make sure the person or persons you claimed as a dependent on your {TAX YEAR} federal income tax return meets the rules qualify someone as a dependent.

We are asking you to do so because we received a return reporting more than \$3,300.00 in gross income from someone having the same Social Security number of a person you claimed as a dependent. Generally, you cannot claim someone whose income exceeds \$3,300.00 as a dependent, unless that person is under age nineteen or a full time student under age twenty-four. In addition, that person probably does not fit the definition of a "qualifying child" for the Earned Income Credit.

The Social Security number for each dependent we are concerned about is below:

{SSN CHILD 1}	{SSN CHILD 4}
{SSN CHILD 2}	{SSN CHILD 5}
{SSN CHILD 3}	{SSN CHILD 6}

**What You Need to Do Now**

Please review this letter to see if you need to correct (amend) your return. You also should review it the next time you prepare a tax return claiming someone as a dependent.

You need to make sure anyone you claim as a dependent meets the rules that qualify someone as a dependent. If you claimed someone who does not meet those rules, you will have to correct (amend) your return. If you claimed someone who meets the rules, you do not need to amend your return or to contact us. However, if someone does not qualify as your dependent, you will need to amend your return by completing the form enclosed with this letter (Form 1040X, Amended U.S. Individual Income Tax Return).



*Multiple Use of Taxpayer Identification  
Numbers Continues to Result in Significant  
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Please review the tax package you received with your return or visit [www.irs.gov](http://www.irs.gov) for the rules on what qualifies someone as a dependent for whom you can claim an exemption and/or an Earned Income Credit.

Then, please follow the directions below.

IF	THEN
The person whose Social Security number is listed on this letter qualifies as your dependent	You don't need to do anything or to contact us. However, always check your tax return to make sure you are using the correct Social Security number.
The person whose Social Security number is listed on this letter does not qualify as your dependent	You need to amend your tax return by completing the form enclosed with this letter.

**NOTE--** Send your amended return to the IRS office listed on the first page of the form's instructions. **Caution: Do not send your amended return to the address on this letter.**

**How To Get Help**

Please call us at the telephone number at the top of the first page of this letter if you have any questions or need additional help. However, if you call us about this letter, the law prohibits us from telling you the name of the person who used the same Social Security number on their return to claim the same dependent you claimed.

You can also visit our website at [www.irs.gov](http://www.irs.gov) to learn more about the rules for claiming a dependent, as well as the rules for claiming an Earned Income Credit. You also can find more information on how to file an amended return at this website.

Thank you for your cooperation.

Enclosures:  
Form 1040X, Amended U.S. Individual Income Tax Return  
Instructions for Form 1040X



**Multiple Use of Taxpayer Identification  
Numbers Continues to Result in Significant  
Erroneous Exemptions and Credits**

Appendix VII

**Management's Response to the Draft Report**



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

August 12, 2010

RECEIVED  
AUG 25 2010  
BY: *DAS*

MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr. *Richard Byrd, Jr.*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Multiple Use of Taxpayer Identification  
Numbers Continues to Result in Significant Erroneous  
Exemptions and Credit (Audit # 200940028)

We have reviewed the subject draft report and appreciate your recognition of the challenges the IRS faces in preventing revenue loss associated with multiple Taxpayer Identification Number (TIN) uses. We also appreciate the acknowledgement that revenue loss has been reduced, since your last review of this issue, as a result of improved IRS processes to identify multiple TIN uses and prevent revenue loss.

Your report notes the IRS' effective use of a number of compliance activities to prevent revenue loss from multiple TIN uses. For example, the IRS issues soft notices (which encourage taxpayers to self correct) to individuals involved with the multiple uses of dependent TINs on more than one tax return for a given tax year. Soft notices are very effective at modifying taxpayer behavior and promoting compliance. In addition, we conduct post-processing audits to address non-compliance related to erroneous exemptions and the credits related to those exemptions. These audits resulted in additional tax assessments exceeding \$103 million in Fiscal Year 2009.

As you reported, it is difficult for the IRS to accurately identify the non-entitled individual involved in multiple TIN uses at the time the tax return is processed. (b) (6)

(b) (6)  
(b) (6) The IRS corrects certain errors during return processing based on math error authority. Although, in situations where data is insufficient to determine a filer's eligibility to claim exemptions, dependents, and associated credits, the IRS must afford taxpayers the opportunity to provide documentation to support items claimed via the audit process. Auditing all situations involving multiple TIN uses is not a practical use of IRS audit resources and can negatively impact compliant taxpayers. Consequently, we do not agree with the



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## ***Multiple Use of Taxpayer Identification Numbers Continues to Result in Significant Erroneous Exemptions and Credits***

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outcome measures in Appendix IV. Diverting resources from other types of audits to perform audits of returns involving multiple uses of TINs would result in a decrease in revenue protected from those audits, which would offset the benefits estimated in your outcome measures.

Developing comprehensive and all-inclusive compliance strategies to address multiple TIN uses is complex. 2(f)

2(f)

Conversely, a prior Treasury Inspector General for Tax Administration audit<sup>1</sup> recommended the IRS modify electronic filing reject criteria to avoid rejecting tax returns where the same TIN is used as a dependent on a return, and subsequently used for a secondary or primary taxpayer on another tax return. The change to the reject conditions was recommended as a means to reduce the number of rejected electronic returns submitted by married taxpayers filing jointly using a duplicated TIN. Clearly, the IRS' responsibility to expeditiously process tax returns of compliant taxpayers must be considered when devising pre-refund compliance strategies.

We appreciate your identification of the two TINs with more than 1,000 attempted uses. Our Criminal Investigation Operation will review these specific cases for potential fraud and/or other compliance issues. In addition, the IRS will ensure a process is in place to identify egregious uses in the future and take appropriate compliance or investigative actions.

The IRS will continue compliance efforts aimed at reducing revenue loss related to erroneous exemptions and credits due to multiple uses of TINs. Attached are our comments to your recommendations. If you have questions, please call me, or a member of your staff may contact Peter J. Stipek, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Attachment

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<sup>1</sup> *Screening Electronically Filed Returns for Errors Provides a Significant Benefit and Does Not Appear to Be a Barrier to Electronic Filing* (Reference Number 2007-40-079, dated May 25, 2007)



## **Multiple Use of Taxpayer Identification Numbers Continues to Result in Significant Erroneous Exemptions and Credits**

Attachment

**RECOMMENDATION 1:** The Commissioner, Wage and Investment Division, should revise the criteria used to determine who will receive a notice to include individuals identified by the DUPTIN database when:

- a TIN is used as a [2(f)] taxpayer on one tax return and as a [2(f)] [2(f)] on another tax return.
- a TIN is used as a qualifying child for [2(f)] [2(f)]

### **CORRECTIVE ACTION**

We disagree with your recommendation to revise the criteria used to determine who will receive a notice to include individuals identified by the Duplicate Taxpayer Identification Number (DUPTIN) database when a Taxpayer Identification Number (TIN) is used as a [2(f)] taxpayer on one tax return and as a [2(f)] [2(f)] on another tax return. Issuing notices to taxpayers in this situation would result in inconsistent treatment because the IRS does not reject electronic returns in the reverse situation. Currently, returns are not rejected when the same TIN is used as a [2(f)] on a return and then subsequently used for a [2(f)] or primary taxpayer on another tax return. This procedure is consistent with a prior Treasury Inspector General for Tax Administration recommendation.<sup>2</sup>

The IRS agrees the multiple use of a TIN for [2(f)] [2(f)] [2(e)] results in improper payments. Issuance of current soft notices include taxpayers who have claimed duplicated dependents, and the related credits for those dependents, such as [2(f)]. The IRS will conduct an analysis of the multiple use of a TIN to claim a qualifying child for the [2(f)] [2(f)] to validate the effectiveness of the treatment of this segment in the current soft notice population. Based on the analysis, we will determine if there are gaps in our current strategy and if so, we will develop an appropriate plan to enhance our current soft notice strategy.

### **IMPLEMENTATION DATE**

January 15, 2013

### **RESPONSIBLE OFFICIAL**

Director, Reporting Compliance, Wage and Investment Division  
Director, Reporting Compliance, Small Business and Self-Employed Division

<sup>2</sup> *Screening Electronically Filed Returns for Errors Provides a Significant Benefit and Does Not Appear to Be a Barrier to Electronic Filing* (Reference Number 2007-40-079, dated May 25, 2007)



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***Multiple Use of Taxpayer Identification  
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**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management control system.

**RECOMMENDATION 2:** The Commissioner, Wage and Investment Division, should identify alternative compliance processes that will include all individuals claiming the EITC with TINs that were used on other tax returns to claim the EITC.

**CORRECTIVE ACTION**

We generally agree with this recommendation. We will continue to identify and test alternative compliance processes for individuals claiming EITC with children's TINs used on other EITC returns. The IRS currently addresses EITC multiple claims in the year the credit is claimed by conducting approximately 19,000 audits, about 2(f) of our total EITC examinations. We plan to continue to explore new ways that may effectively improve compliance, and further reduce improper payments in this area.

**IMPLEMENTATION DATE**

January 15, 2013

**RESPONSIBLE OFFICIAL**

Director, Reporting Compliance, Wage and Investment Division  
Director, Reporting Compliance, Small Business and Self-Employed Division

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management control system.

**RECOMMENDATION 3:** The Commissioner, Wage and Investment Division, should implement a process to identify filers involved in the multiple use of ITINs who were not entitled to use them and prevent and/or recover erroneous claims for 2(f) and tax credits.

**CORRECTIVE ACTION**

We do not agree with this recommendation. We have processes in place to identify filers involved in the multiple use of ITINs who were not entitled to use them, and to prevent and/or recover erroneous claims for 2(f) and tax credits. Current programming already performs the same checks for ITINs as those performed for Social Security Numbers (SSN). Compliance efforts related to filers with ITINs are comparable to those in place for SSN filers, including issuance of targeted soft notices. While some additional data related to an ITIN filer is available, taxpayer situations with regard to dependents often change, limiting the effectiveness of the use of this data to



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***Multiple Use of Taxpayer Identification  
Numbers Continues to Result in Significant  
Erroneous Exemptions and Credits***

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accurately identify entitled, or non-entitled, individuals at the time the tax return is processed. As additional compliance processes are developed for taxpayers with SSNs, the IRS will ensure those efforts also address taxpayers who file tax returns or claim dependents using an ITIN.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 4:** The Commissioner, Wage and Investment Division, and the Chief, Criminal Investigation, should establish processes to prevent and/or recover tax benefits erroneously provided to taxpayers when a TIN is used more than 27 times in a single tax year.

**CORRECTIVE ACTION**

The IRS agrees with this recommendation. The IRS Wage and Investment Division (W&I) will partner with Criminal Investigation Division to develop processes to implement referral procedures for the most egregious instances (27 or more) of multiple TIN uses. Criminal Investigation will review these instances to determine investigative and prosecutorial potential. When applicable, W&I will pursue adding compliance treatment streams for these multiple TIN uses, and implement the necessary pre-refund compliance strategies to review any future uses of that TIN.

**IMPLEMENTATION DATE**

January 15, 2013

**RESPONSIBLE OFFICIAL**

Director, Refund Crimes, Criminal Investigation  
Director, Reporting Compliance, Wage and Investment Division  
Director, Reporting Compliance, Small Business and Self-Employed Division

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor this corrective action as part of our internal management control system.