



Office of Audit

**Treasury
Inspector
General for Tax
Administration**



Recovery Act

A COMPREHENSIVE STRATEGY IS BEING DEVELOPED TO IDENTIFY INDIVIDUALS WITH FIRST-TIME HOMEBUYER CREDIT REPAYMENT REQUIREMENTS

Issued on August 16, 2010

Highlights

Highlights of Report Number: 2010-41-086 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Approximately 1.8 million taxpayers claimed a total of almost \$12.5 billion in First-Time Homebuyer Credits in Calendar Year 2009. More than 950,000 taxpayers will be required to repay the Credits because their homes were purchased in 2008. Many more may have to repay the Credits if the homes cease to be the primary residences of the taxpayers within 36 months.

WHY TIGTA DID THE AUDIT

The Housing and Economic Recovery Act of 2008 created a new First-Time Homebuyer Credit equal to 10 percent of the purchase price of the home, limited to a maximum amount of \$7,500. The Credit served as an interest-free loan that must be repaid over a 15-year period. Subsequent laws expanded the Credit and eliminated the repayment requirement, except in those instances in which the home is sold or no longer the taxpayer's primary residence within 36 months. This audit was initiated to determine whether the Internal Revenue Service (IRS) had developed effective strategies to administer the First-Time Homebuyer Credit, recapture the Credit from taxpayers when appropriate, and prevent improper Credits.

A prior TIGTA review reported that the IRS could not distinguish between 2008 and 2009 home purchases and outlined concerns that controls would not be adequate to prevent erroneous or fraudulent claims for the Credit.

WHAT TIGTA FOUND

The IRS developed computer coding to record a special indicator during processing of tax returns and adjustment transactions to distinguish individuals with a 2008 home purchase from those with a 2009 home purchase. The

IRS also created a Homebuyer Credit Entity Section on the tax accounts for individuals that received the Credit.

However, our analysis identified an estimated 73,119 (4.1 percent) of the 1,774,718 individuals receiving the Credit had incorrect purchase dates recorded on the IRS's system; 59,802 of these taxpayers purchased their homes in 2009, but the IRS incorrectly recorded the purchases as 2008 or the years were not recorded. These taxpayers could incorrectly receive notices requiring repayment.

Currently, the IRS does not have the ability to identify individuals who received the Credit and their purchased homes cease to be their main residences, which requires repayment. The IRS is developing a comprehensive strategy to address repayment provisions in the law. The strategy objectives include identifying third-party data sources to ensure individuals are complying with the provisions in the law.

TIGTA also identified 1,326 single taxpayers the Social Security Administration recorded as deceased who claimed \$10.1 million in erroneous Credits. The IRS did not allow 528 of the 1,326 individuals to receive over \$4 million they claimed for the Credit.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, 1) correct the purchase dates for the 68,924 accounts TIGTA identified as having incorrect purchase dates and 2) ensure the 798 individuals who TIGTA identified as being deceased prior to the purchase of the home are entitled to claim the Credit.

In their response to the report, IRS officials agreed the claims for the Credit for the 68,924 accounts were processed early in the program and some purchase dates were incorrectly recorded in IRS systems. The IRS plans to use third-party property records to verify home purchase or disposition information and to refer discrepancies for appropriate resolution. In addition, the IRS plans to audit the 798 accounts and recapture the claims paid out, if necessary.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2010reports/201041086fr.pdf>.

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