



Office of Audit

Treasury
Inspector
General for Tax
Administration



Recovery Act

HEALTH COVERAGE TAX CREDIT RECOVERY ACT PROVISIONS WERE TIMELY IMPLEMENTED, BUT PROGRAM CAPACITY IS LIMITED

Issued on September 24, 2010

Highlights

Highlights of Report Number: 2010-41-122 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Health Coverage Tax Credit (HCTC) is a refundable tax credit and was created to assist certain workers who lost their jobs due to foreign trade and retirees who receive payments from the Pension Benefit Guaranty Corporation. Our review identified that processes were developed to ensure HCTC payments were timely and accurately processed. All payments TIGTA reviewed were sent to the Health Plan Administrators on time to ensure the continuity of the individual's health coverage.

WHY TIGTA DID THE AUDIT

The American Recovery and Reinvestment Act of 2009 (Recovery Act) included provisions to help make health coverage more affordable. These provisions are expected to improve the availability of health coverage to eligible individuals and their qualifying family members. In Calendar Year 2008, the Internal Revenue Service (IRS) processed 159,012 payments totaling \$121.8 million, which included \$44.1 million in payments from individuals and \$77.7 million in Federal Government subsidies. Our overall objective was to evaluate the efficiency and effectiveness of HCTC payment processing.

WHAT TIGTA FOUND

The IRS timely and accurately implemented provisions relating to the Advance Monthly Payment Option included in the Recovery Act. Our review identified that the IRS increased the Federal Government portion of health insurance premiums paid from 65 percent to 80 percent. The IRS also implemented processes to enable individuals to request reimbursement for premiums paid while enrolling in the Advance Monthly Payment Option.

Although TIGTA found that payments were timely and accurately processed, the IRS will face challenges if there is a significant increase in the number of monthly enrolled participants. Current IRS systems are built to support only 57,000 enrolled participants in any given month. In addition, TIGTA identified that eligibility indicators for 3,661 individuals in Calendar Year 2009 could not be posted to the respective individuals' IRS tax account. HCTC Program management noted that a business decision was made to not resolve these unpostable conditions because they represent less than 1 percent of the accounts for which an indicator is added. Not establishing a process to resolve unpostable situations can have a negative impact on these individuals and result in taxpayer burden.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, develop a process to ensure the accuracy of Health Plan Administrators' information on the IRS financial system and HCTC financial system; ensure individuals participating in the Advance Monthly Payment Option receive accurate *Health Coverage Tax Credit (HCTC) Advance Payments* (Form 1099-H) payment information; and identify and resolve unpostable records to ensure eligibility indicators are added to individuals' tax accounts.

The IRS agreed with two of the three recommendations. The IRS disagreed with our recommendation to ensure individuals receive accurate Forms 1099-H. IRS management indicated that individuals receive accurate Forms 1099-H and the form is for information only. Notwithstanding IRS management's response, TIGTA found that some individuals did receive inaccurate Forms 1099-H. Form 1099-H needs to be accurate because individuals receiving Forms 1099-H use this information when preparing their tax returns.

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/201041122fr.pdf>.

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