Office of Audit

Treasury Inspector General for Tax Administration

Recovery Act

VERIFYING ELIGIBILITY FOR CERTAIN NEW TAX BENEFITS WAS A CHALLENGE FOR THE 2010 FILING SEASON

Issued on September 30, 2010

Highlights

Highlights of Report Number: 2010-41-128 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

One of the challenges the Internal Revenue Service (IRS) confronts each year in processing tax returns is the implementation of new tax law changes. The passage of two significant tax laws impacted the 2010 Filing Season and presented additional challenges for the IRS. As of May 28, 2010, the IRS received more than 131.7 million individual income tax returns and issued approximately 101 million refunds totaling $291.7 billion.

WHY TIGTA DID THE AUDIT

The filing season is critical for the IRS because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. The overall objective of this review was to evaluate whether the IRS timely and accurately processed individual paper and electronically filed tax returns during the 2010 Filing Season.

WHAT TIGTA FOUND

The IRS timely processed individual tax returns during the 2010 Filing Season. However, implementing some new tax provisions presented challenges for the IRS. These challenges resulted in increased error inventories from individuals incorrectly calculating the Making Work Pay Credit and individuals not providing required documentation when claiming the First-Time Homebuyer Credit. There were nearly 23.7 million errors on tax returns through May 28, 2010, an increase of 7.1 percent in error receipts compared to the same time last year.

TIGTA identified inadequate controls and incomplete and inaccurate programming resulting in 125,762 individuals receiving nearly $111.4 million in erroneous Recovery Act-related tax benefits:

- 10,581 individuals claiming $65.6 million in erroneous Homebuyer Credits. IRS compliance efforts did not allow 2,363 of the 10,581 individuals to receive $11.3 million they claimed for the Homebuyer Credit.
- 109,665 individuals erroneously receiving $29.7 million in Making Work Pay and Government Retiree credits.
- 5,345 individuals erroneously claiming $15.6 million in plug-in vehicle credits.
- 171 individuals claiming $453,220 in erroneous Nonbusiness Energy Property credits.

In addition, TIGTA identified 2,933 individuals with more than $95.8 million in Qualified Motor Vehicle Tax deductions on U.S. Individual Income Tax Returns, Itemized Deductions (Form 1040, Schedule A) that exceeded the dollar amount the IRS uses to identify a potentially erroneous claim. The IRS had not developed a process to identify these potentially erroneous claims on Schedule A.

WHAT TIGTA RECOMMENDED

The Commissioner, Wage and Investment Division, should:

- Develop processes to track and account for Recovery Act credits claimed on plug-in vehicle credit tax forms.
- Verify whether 8,218 individuals identified as erroneously claiming the First-Time Homebuyer Credit are entitled to claim the credit.
- Ensure computer systems are programmed to identify individuals exceeding the maximum allowable Nonbusiness Energy credits.
- Ensure programming is implemented to identify and freeze refunds of individuals claiming more than a specific dollar amount in Qualified Motor Vehicle Tax deductions on Schedule A, if the deduction is extended.

The IRS agreed with each of our recommendations and plans to take corrective actions.

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/201041128fr.pdf.

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