



Treasury Inspector General for Tax Administration Office of Audit

THE EMPLOYEE PLANS FUNCTION SHOULD CONTINUE ITS EFFORTS TO OBTAIN NEEDED RETIREMENT PLAN INFORMATION

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Highlights

Highlights of Report Number: 2011-10-108 to the Acting Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

Beginning in January 2010, retirement plan sponsors were no longer required to report certain information on annual returns that are processed by the Department of Labor and provided to the Internal Revenue Service. The Employee Plans (EP) function's effectiveness will be reduced because it will no longer receive detailed information on the operational and financial activities of plans, which was used to identify the characteristics of noncompliant plans for examination. Focusing on those plans most likely to be noncompliant is important because bringing plans back into compliance through examinations provides plan participants with greater assurance that promised benefits will be available upon retirement.

WHY TIGTA DID THE AUDIT

TIGTA initiated the audit because EP function personnel expressed concerns that the lack of previously available information was affecting the EP function's ability to achieve its tax administration responsibilities. The overall objective of this review was to determine whether the EP function's ability to achieve its tax administration responsibilities has been significantly affected by a reduction of previously available information from employer-sponsored retirement plans annual return filings.

WHAT TIGTA FOUND

Through discussions with EP function personnel, TIGTA determined that information no longer required to be filed was used by the EP function to help identify abusive transactions, identify funding or minimum coverage requirements issues, and conduct special projects to identify potentially noncompliant retirement plans. While it is too early to tell the full impact on the EP function, it is clear through discussions with EP function personnel that the lack of this information will have an impact on the EP function's ability to effectively focus on specific

indicators of noncompliance when selecting retirement plans for examination.

As TIGTA's audit work concluded, the EP function was taking actions to mandate electronic filing of its returns and schedules, which could allow the EP function to pursue obtaining additional retirement plan information as part of annual returns. However, EP function officials are concerned that it may take a long time before additional information is required to be filed due to differences in the regulatory approval processes between the Internal Revenue Service and the Department of Labor.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, EP, Tax Exempt and Government Entities Division, 1) continue to evaluate the information the EP function needs, while exploring its regulatory and legislative options for the mandatory electronic filings of annual returns from employer-sponsored retirement plans, and 2) coordinate with the Department of Labor on the development of a timetable for implementing changes to the annual return filings to obtain the information to meet its tax administration responsibilities.

In response to the report, IRS officials agreed with the recommendations. They plan to annually evaluate their needs from annual filings, continue to work with the Tax Exempt and Government Entities Counsel and the Office of Benefits Tax Counsel to explore legislative options for mandatory electronic filing of annual returns, and work with the Department of Labor to develop a timetable for implementing periodic changes to the content of annual 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/2011reports/201110108fr.pdf>

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