



Treasury Inspector General for Tax Administration Office of Audit

SOME TAXPAYER RESPONSES TO MATH ERROR ADJUSTMENTS WERE NOT WORKED TIMELY AND ACCURATELY

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Highlights

Highlights of Report Number: 2011-40-059 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) has the authority to adjust tax returns to correct math errors without performing an audit. When the IRS makes math error adjustments to a taxpayer's tax return, the IRS sends a notice. Although the IRS provides taxpayers with the ability to dispute adjustments made to their tax returns, improvements are needed to ensure responses are worked timely and accurately.

WHY TIGTA DID THE AUDIT

During the period January 1 to July 23, 2010, the IRS issued approximately 8.6 million math error notices. A total of 133,186 (1.6 percent) taxpayers responded to the IRS disputing the adjustments made to their tax return.

Delays in addressing taxpayers' disputes of math error adjustments could result in taxpayers not timely receiving tax benefits to which they are entitled or in a loss of revenue to the Federal Government. Our overall objective was to determine whether the IRS is accurately and timely resolving individual taxpayer responses to math error adjustments.

WHAT TIGTA FOUND

Most (98.4 percent) of the approximately 8.6 million math error notices were agreed to by the taxpayer. However, our review identified that some responses in which taxpayers disagreed with the math error notices were not worked timely or accurately.

Our review of 260 taxpayer responses worked by the IRS between January 1 and July 23, 2010, showed 104 of the 260 responses were not worked timely. TIGTA estimated that 12,232 taxpayer responses may not have been timely resolved during the period January 1 to July 23, 2010.

In addition, TIGTA found that 43 of the 260 responses reviewed were not worked accurately. TIGTA estimated that 17,627 taxpayers may not have had their responses resolved accurately during the period January 1 to July 23, 2010. In addition, TIGTA estimates inaccuracies could result in approximately \$39.5 million in lost revenue to the Federal Government and approximately \$29.2 million in tax benefits that taxpayers will not receive over the next five years.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, develop a process to monitor timeliness of working responses to math error adjustments, prioritize the working of written responses relating to Earned Income Tax Credit math error adjustments, and reinforce to Accounts Management function assistants the need to thoroughly and accurately work responses to math error adjustments.

In their response to the report, IRS officials agreed to reinforce the need to thoroughly and accurately work responses to math error adjustments. However, management did not agree with our recommendation to develop a process to monitor the timeliness stating they had such a process. Management also did not agree to prioritize the working of Earned Income Tax Credit responses and did not agree with the methodology TIGTA used to compute the potential revenue lost to the Federal Government resulting from inaccurate resolution of responses.

As stated in our report, no processes were in place to monitor the timeliness of math error notice responses at the time of our review. Because math error authority allows the IRS to adjust a claim prior to an examination, expedited resolution is needed for these cases.

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/201140059fr.pdf>.