



Treasury Inspector General for Tax Administration Office of Audit

LEGISLATIVE REQUIREMENTS WERE MET WHEN AWARDING CREDITS AND GRANTS FOR THE QUALIFYING THERAPEUTIC DISCOVERY PROJECT PROGRAM

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Highlights

Highlights of Report Number: 2011-40-100 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The Qualifying Therapeutic Discovery Project (QTDP) Program is a tax benefit (a credit or a grant) targeted to therapeutic discovery projects that show a reasonable potential to: 1) result in new therapies to treat areas of unmet medical need; 2) reduce the long-term growth of health care costs; and 3) advance the goal of curing cancer within 30 years. The QTDP Program's tax benefit is available only to taxpayers with no more than 250 employees and covers up to 50 percent of a taxpayer's qualified investment. The Internal Revenue Service (IRS) distributed \$1 billion in credits and grants to 4,606 recipients.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the QTDP Program met legislative requirements when considering and awarding credits and grants to qualifying therapeutic discovery project applicants, and whether the IRS implemented adequate controls to monitor the credits and grants.

WHAT TIGTA FOUND

The IRS met legislative requirements when awarding credits and grants to QTDP Program recipients. Despite the unprecedented short time period allotted by the law for creating the QTDP Program, the IRS achieved its goal.

The IRS team administering the QTDP Program, in consultation with the Department of Health and Human Services, processed 5,663 Applications for Certification of Qualified Investments Eligible for Credits and Grants Under the Qualifying Therapeutic Discovery Project Program (Form 8942). Of the 5,663 Forms 8942 received, 4,606 (81.3 percent) were approved for a credit or grant.

All QTDP Program certified applicants were listed by State on IRS.gov, as required by law. The IRS has internally revised and corrected the number of entities receiving credits or grants, but it has not updated IRS.gov since November 1, 2010.

The IRS prepared numerous documents that record the process for implementing the QTDP Program. These documents will be helpful for implementing future unique and similar projects.

A compliance plan was developed and is being implemented. The plan includes reviewing the tax returns of taxpayers who accepted QTDP Program credits and grants. The IRS mailed 326 letters to grant recipients that had not yet filed an amended Tax Year 2009 tax return.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Small Business/Self-Employed Division, ensure: 1) the information regarding the applicant names and amounts allocated are updated on IRS.gov to accurately show which taxpayers and projects were originally awarded QTDP Program credits and grants; and 2) the QTDP Program line item is removed from the Investment Credit (Form 3468) after a determination is made that all QTDP Program taxpayers have filed their Tax Year 2010 returns.

The IRS agreed with the recommendations. The IRS plans to: 1) update the information on IRS.gov regarding the applicant names and amounts allocated through July 31, 2011; and 2) by July 15, 2012, make a final update to IRS.gov to reflect any activity from August 1, 2011, to the end of the QTDP Program. Concerning the second recommendation, the IRS has notified the Forms and Publications function of the need to remove the QTDP Program line from Form 3468 once it has determined that all QTDP Program taxpayers have filed their Tax Year 2010 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/201140100fr.pdf>.

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