



Treasury Inspector General for Tax Administration Office of Audit

THE PASSAGE OF LATE LEGISLATION AND INCORRECT COMPUTER PROGRAMMING DELAYED REFUNDS FOR SOME TAXPAYERS DURING THE 2011 FILING SEASON

Issued on September 28, 2011

Highlights

Highlights of Report Number: 2011-40-128 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 three significant tax laws affected the 2011 Filing Season. As of April 30, 2011, the IRS received 130.7 million individual income tax returns and issued approximately 98.2 million refunds totaling \$277.1 billion.

WHY TIGTA DID THE AUDIT

The filing season is critical for the IRS because it is during this time that most taxpayers file their 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 2011 Filing Season.

WHAT TIGTA FOUND

The IRS timely processed the majority of individual income tax returns during the 2011 Filing Season. However, because of the late passage of legislation, taxpayers claiming certain deductions or itemizing deductions were delayed in filing their individual tax returns. Electronic Return Originators held approximately 6.5 million electronically filed tax returns and the IRS had received and held approximately 100,000 paper tax returns until February 14.

As of April 30, 2011, the IRS had identified 775,723 tax returns with \$4.6 billion claimed in fraudulent refunds and prevented the issuance of \$4.4 billion (96 percent) of those fraudulent refunds. The IRS also selected 199,854 tax returns filed by prisoners for fraud screening, a 256 percent increase compared to last year.

However, our review found that implementing some legislative provisions such as the First-Time Homebuyer Credit, Adoption Credit, Nonbusiness Energy Property Credits, and Plug-in Electric and Alternative Motor Vehicle Credits resulted in an inability to identify 140,596 taxpayers erroneously claiming \$140.2 million when tax returns are processed. In addition, 26,649 taxpayers had their Homebuyer Credit inaccurately processed, \$5.8 million in repayment amounts was not assessed, and \$675,063 in repayment amounts was erroneously assessed.

WHAT TIGTA RECOMMENDED

TIGTA made a number of recommendations. The most significant included that the IRS ensure taxpayers identified as erroneously claiming the credits and deductions detailed in the report are entitled to claim them, initiate a recovery program for erroneously paid claims, revise the programming for Homebuyer Credit repayments, and seek math error authority for certain credits detailed in the report.

The IRS agreed with 12 of our 14 recommendations. For the two disagreed recommendations, TIGTA continues to believe the IRS needs to take action. Related to our recommendation to establish a Homebuyer Credit Entity Section for each taxpayer who received the Homebuyer Credit rather than grouping information by primary and secondary Social Security Number, the lack of IRS action could result in continued problems, with delays in refunds to some taxpayers. For the issue of allocating installment repayments, TIGTA does not agree that the IRS's issuance of an alert will ensure that tax examiners accurately allocate installment repayments.

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/201140128fr.pdf>.