



Treasury Inspector General for Tax Administration Office of Audit

PROCEDURES NEED TO BE UPDATED TO ENSURE PROPER DETERMINATIONS OF TAX RELIEF FOR TAXPAYERS AFFECTED BY DISASTERS

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Highlights

Highlights of Report Number: 2012-40-015 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The purpose of the Disaster Assistance Program is for the IRS to provide tax relief to taxpayers affected by major disasters or emergencies. During these stressful and extraordinary situations, taxpayers and tax practitioners require disaster assistance to enable them to meet their obligations for filing tax returns or paying taxes without being penalized.

WHY TIGTA DID THE AUDIT

Each year disasters or emergencies affect millions of individuals and businesses throughout the United States. Complete and accurate IRS guidelines are needed to ensure affected taxpayers are provided appropriate tax relief. The overall objective of this review was to assess the efficiency and effectiveness of the IRS's disaster relief assistance.

WHAT TIGTA FOUND

The IRS has developed processes and procedures that help ensure taxpayers adversely affected by a major disaster or emergency are afforded tax relief. However, the IRS Disaster Assistance Program guidelines were incomplete and inaccurate. They did not reflect the processes and procedures used by employees to assess disasters and grant tax relief to affected individuals and businesses.

In addition, the Program Office is not documenting the assessment of the severity and scope of damage for each Federally declared disaster when determining the length and type of tax relief to be granted. Without formal documentation, there is no evidence to support the determination for external stakeholders.

Finally, the IRS did not always timely release disaster relief indicators from individual tax accounts. Our analysis of tax accounts as of December 31, 2010, identified 597,513 individual tax accounts with an

erroneous active disaster relief indicator. This was subsequently corrected when the IRS moved these accounts back to the Individual Master File. Although the disaster relief indicators were not timely released, none of the individuals received erroneous tax relief benefits.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Small Business/Self-Employed Division, ensure that guidelines are updated to reflect the current processes and procedures used to assess Federally declared disasters and grant tax relief to affected individuals and businesses. Guidelines should include a detailed description of the assessment and documentation prepared for the review of the unique facts and circumstances of each disaster, including the severity and scope of damage, when determining the disaster relief period and type of tax relief to be granted. TIGTA also recommended that the IRS develop programming to systemically release the disaster relief indicators on tax accounts stored on a database other than the Individual Master File.

In its response to the report, the IRS agreed with our recommendations. The IRS plans to revise the Internal Revenue Manual to reflect current processes and procedures used by the Disaster Assistance Program Office that will include procedures to determine the appropriate relief levels. The IRS also plans to ensure that when tax accounts are stored in a database other than the Individual Master File, programming is in place to systemically release disaster relief indicators.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2012reports/201240015fr.pdf>