



## Treasury Inspector General for Tax Administration Office of Audit

### DELAYS IN PROCESSING NET OPERATING LOSS CASES RESULTED IN MILLIONS OF DOLLARS IN UNNECESSARY INTEREST PAYMENTS

Issued on September 17, 2012

## Highlights

Highlights of Report Number: 2012-40-111 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

Taxpayers who encounter significant financial losses could be in a situation where their deductions exceed their income, creating a net operating loss (NOL) that can be applied against prior year taxes. Interest is paid to the taxpayer if the IRS does not process an NOL case within 45 days. The IRS pays millions of dollars in interest payments annually because many NOL cases are not processed within 45 days. This interest is costly to the Government and creates a burden to taxpayers when their refunds are delayed.

### WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS was processing NOL cases timely to minimize interest payments and taxpayer burden.

### WHAT TIGTA FOUND

A test of a statistical sample of 334 of 86,483 NOL carryback tax abatements that posted to individual taxpayer accounts during Calendar Year 2010 showed 64 (19 percent) were not processed within 45 days. TIGTA estimates that the IRS could pay approximately \$334 million of avoidable interest payments and delay payment to more than 74,000 individual taxpayer accounts in the next five years due to delays with processing NOL cases.

There were multiple reasons contributing to cases not being processed within 45 days, including the following:

- Cases were reassigned multiple times before closure.
- Cases were not given the proper priority code on the system used to track and monitor the cases.
- Manual refunds were not always issued when required.

Additionally, current performance measures are not ensuring that NOL cases are timely worked. Neither interest paid on NOL cases nor the 90-day statutory time period for processing tentative applications is monitored to help determine if the IRS is timely processing NOL cases.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS analyze the cause of excessive case reassignments, pursue programming to correct computer coding issues, and reevaluate certain case dollar criteria. TIGTA also recommended that the IRS create processes to monitor interest dollars paid and adherence to the 90-day statutory time period for processing tentative applications.

IRS management agreed with our recommendations and plans to take appropriate corrective actions.

IRS management did not agree with the outcome measures discussed in our report. The basis of their disagreement was that the calendar year from which our samples were drawn had an unusually high volume of NOL carrybacks due to legislation that took effect for that year. The IRS believes that our samples were representative of what occurred in Calendar Year 2010, but are not representative of future years. However, because of the unusually high volumes in Calendar Year 2010, TIGTA adjusted its estimate using the volume of carryback transactions posted in Calendar Year 2011.

### 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/201240111fr.pdf>.