



Treasury Inspector General for Tax Administration Office of Audit

THE MAJORITY OF INDIVIDUAL TAX RETURNS WERE PROCESSED TIMELY, BUT NOT ALL TAX CREDITS WERE PROCESSED CORRECTLY DURING THE 2012 FILING SEASON

Issued on September 26, 2012

Highlights

Highlights of Report Number: 2012-40-119 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The filing season, defined as the period from January 1 through mid-April, is critical for the IRS because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. As of April 28, 2012, the IRS received more than 133.4 million individual income tax returns and issued slightly more than 99.1 million tax refunds totaling approximately \$269 billion.

WHY TIGTA DID THE AUDIT

One of the challenges the IRS confronts each year in processing tax returns is the implementation of new tax law changes. Before the filing season begins, the IRS must identify new tax law and administrative changes and, when possible, revise the various tax forms, instructions, and publications. The objective of this review was to evaluate whether the IRS timely and accurately processed individual paper and electronically filed tax returns during the 2012 Filing Season.

WHAT TIGTA FOUND

The IRS timely processed the majority of individual income tax returns during the 2012 Filing Season. However, some taxpayers who electronically filed early in the 2012 Filing Season experienced delays in receiving their tax refunds. The IRS indicated that it had experienced problems with its filters established to identify fraud and with the program used by the Modernized E-File system to create output files using the accepted electronically filed tax return data format that other IRS systems need to continue processing the tax returns.

As of April 28, 2012, the IRS had identified tax returns with \$6.4 billion in fraudulent tax refunds and prevented the issuance of \$6.1 billion of the fraudulent tax refunds. The IRS also identified 210,473 tax returns filed by prisoners for fraud screening, a 5.3 percent increase compared to last year.

The IRS assisted approximately 2.3 million individuals at its Taxpayer Assistance Centers and received approximately 90.4 million attempts from taxpayers calling the various Customer Account Services function toll-free telephone assistance lines.

The processing of Homebuyer Credit repayments has improved. However, some taxpayer repayments continue to be inaccurately processed resulting in almost \$2.6 million in erroneous refunds and more than \$290,000 in incorrect assessments to taxpayers' accounts. In addition, more than \$14.6 million was not properly assessed and more than \$650,000 was incorrectly over-assessed to taxpayers' accounts when taxpayers reported a disposition of the property.

In addition, 125,684 taxpayers also claimed more than \$29.7 million in erroneous Nonbusiness Energy Property Credits, and 109,618 taxpayers claimed more than \$159 million for the American Opportunity Tax Credit for students who, based on age, are unlikely to be pursuing an undergraduate degree or vocational certification.

WHAT TIGTA RECOMMENDED

TIGTA made a number of recommendations including recommendations to initiate recovery programs for erroneously paid claims and to ensure that Homebuyer Credit claims are processed correctly.

IRS management agreed and implemented corrective actions for all the recommendations that included changing computer programming, updating processing procedures, and initiating recovery procedures for credits that were erroneously refunded.

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/201240119fr.pdf>