



## Treasury Inspector General for Tax Administration Office of Audit

### KEY TAX PROVISIONS WERE IMPLEMENTED CORRECTLY FOR THE 2014 FILING SEASON

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## Highlights

Highlights of Report Number: 2014-40-077 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 laws or filing procedures.

### WHY TIGTA DID THE AUDIT

Our overall objective was to evaluate whether the IRS timely and accurately processed individual paper and electronically filed (e-filed) tax returns during the 2014 Filing Season.

### WHAT TIGTA FOUND

The closure of Government operations between October 1 and October 16, 2013, reduced the time the IRS had to implement tax law changes and bring tax return processing systems online. As a result, the IRS delayed the start of the filing season from January 21 to January 31, 2014.

As of May 2, 2014, the IRS had received more than 135.5 million tax returns – more than 117 million (86.4 percent) were e-filed and nearly 18.5 million (13.6 percent) were filed on paper. The e-file volumes were 2.9 percent higher than the volumes for the same period in the 2013 Filing Season. The IRS had issued more than 99.9 million refunds totaling nearly \$269.5 billion.

The IRS reported that it identified and confirmed 236,313 fraudulent tax returns involving identity theft as of April 30, 2014. Overall, the IRS identified 268,233 tax returns with more than \$1.48 billion claimed in fraudulent refunds and prevented the issuance of more than \$1.32 billion (88.9 percent) of the fraudulent refunds it identified. The IRS also identified 63,087 potentially fraudulent tax returns filed with prisoner Social Security Numbers for screening.

TIGTA's review of the tax provisions that created additional taxes or modified existing tax provisions for the 2014 Filing Season found that these key provisions were correctly implemented. However, TIGTA did identify a problem in which some taxpayers' nonrefundable credit claims were being improperly reduced due to employee error.

The IRS continues to offer more self-assistance options that taxpayers can access 24 hours a day, seven days a week. However, the IRS did not always ensure that the self-help tools were updated with the most current tax information before the start of the filing season. In addition, the number of taxpayers assisted at IRS Taxpayer Assistance Centers and through the telephone continues to decline.

Finally, TIGTA found that some taxpayers and return preparers continue to misuse the split refund option to direct a portion of a tax refund to a preparer for payment of services. TIGTA also found that some paid tax return preparers continue to be noncompliant with the Earned Income Tax Credit due diligence requirements, but the number has decreased substantially when compared to previous filing seasons.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, review the 308,986 tax returns for which it appears the split refund option was used to inappropriately direct a portion of the tax refund to the tax return preparer, implement computer programming to systemically ensure that taxpayers' claims for nonrefundable credits are allowed when applicable, ensure that Earned Income Tax Credit due diligence penalties are assessed on all paid tax return preparers who do not comply with the due diligence requirements, and ensure that YouTube videos are updated with the most current tax information.

The IRS agreed or partially agreed with three of TIGTA's four recommendations.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2014reports/201440077fr.pdf>.