



Treasury Inspector General for Tax Administration Office of Audit

ACTIONS CAN BE TAKEN TO FURTHER IMPROVE THE STRATEGY FOR ADDRESSING EXCESS CONTRIBUTIONS TO INDIVIDUAL RETIREMENT ARRANGEMENTS

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Highlights

Highlights of Report Number: 2015-10-020 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

According to the Government Accountability Office, an estimated 43 million individuals had Individual Retirement Arrangements (IRA) in Tax Year 2011 with a fair market value of \$5.2 trillion. IRAs are a key tax-preferred way for individuals to save for retirement; however, there are rules that limit the amount individuals can contribute to IRAs in a tax year. Individual noncompliance with excess IRA contribution rules results in revenue loss to the Federal Government.

WHY TIGTA DID THE AUDIT

In Fiscal Years 2008 and 2010, TIGTA performed audits concerning compliance with IRA rules and recommended that the IRS develop a strategy to address retirement provision noncompliance. The overall objective of this audit was to determine whether the IRS has an effective strategy to identify and address excess contributions made to IRAs.

WHAT TIGTA FOUND

In response to prior TIGTA recommendations, the IRS developed and implemented a broad-based strategy that focuses on educating tax preparers and individuals about IRA rules and notifying individuals when they have potentially exceeded contribution limits. Although the IRS did not have results from the 2011 Filing Season strategy initiatives as our audit concluded, it has taken positive steps toward testing its strategy by adding controls to identify and address excess IRA contributions.

While the IRS has taken action to address prior recommendations, TIGTA determined that additional improvements could be made. For example, the IRS developed education materials for individuals and tax preparers but did not consider education materials for IRA custodians. TIGTA identified a significant number of inaccurate IRA information documents submitted by

IRA custodians. Including outreach to IRA custodians should improve the accuracy of information documents sent to the IRS.

The IRS tested a methodology to identify and notify individuals with potentially excessive IRA contributions. While the IRS states it only intended to identify a suitable sample population for its test, TIGTA identified a significant number of potentially noncompliant individuals who were not included in the universe from which the IRS selected its sample. If the IRS decides to continue compliance efforts based on its test, having a more complete and accurate population of potentially noncompliant taxpayers would help IRS management select the most productive cases to pursue with limited compliance resources. Improved methods of identifying noncompliance could also protect revenue and reduce taxpayer burden.

WHAT TIGTA RECOMMENDED

TIGTA recommended that, when evaluating future efforts related to the IRA strategy, the Commissioner, Wage and Investment Division, should consider: 1) developing education materials for IRA custodians informing them of common mistakes made on information documents and the importance of submitting accurate information documents and 2) identifying a more complete and accurate universe of individuals who potentially made excess contributions from which to select potentially productive cases.

In their response, IRS officials stated that they plan to continue to inform IRA custodians of issues and errors affecting the administration of IRAs from a taxation perspective. Additionally, the IRS agreed to identify a more complete and accurate universe of individuals who potentially made excess contributions as it is a logical next step in expanding the IRA soft notice program from its current pilot state.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2015reports/201510020fr.pdf>.

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