Affordable Care Act: Verification of Premium Tax Credit Claims During the 2016 Filing Season

March 2, 2017

Reference Number: 2017-43-022

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AFFORDABLE CARE ACT: VERIFICATION OF PREMIUM TAX CREDIT CLAIMS DURING THE 2016 FILING SEASON

Highlights

Final Report issued on March 2, 2017

Highlights of Reference Number: 2017-43-022 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Affordable Care Act created the refundable Premium Tax Credit (PTC) to help offset the cost of health care insurance for those with low or moderate income. Eligible individuals can elect to receive some, all, or none of the PTC in advance. As of June 30, 2016, the IRS processed more than 5.2 million tax returns in which taxpayers received approximately $20.3 billion in the PTCs either as an advanced payment or claimed at the time of filing.

WHY TIGTA DID THE AUDIT

Individuals who received the PTC in advance are required to reconcile the amount paid on their behalf to the allowable amount of the PTC on their tax return. According to the IRS, more than $28.3 billion in Advance PTCs (APTC) was paid to insurers in Fiscal Year 2016. The objective of this review was to evaluate the effectiveness of the IRS's verification of PTC claims during the 2016 Filing Season.

WHAT TIGTA FOUND

TIGTA's analysis of approximately 4.9 million tax returns processed by the IRS as of May 1, 2016, found that the IRS accurately determined the amount of allowable PTC on more than 4.7 million (97 percent) returns. For the remaining 154,744 tax returns, either programming errors resulted in an inaccurate PTC computation or high-risk tax returns were not identified as potentially erroneous because the discrepancy amount was below the dollar tolerance for which the IRS will review a claim.

TIGTA also found that not all Exchanges provided the required Exchange Periodic Data (EPD) and Form 1095-A, *Health Insurance Marketplace Statement*, data to the IRS prior to the start of the 2016 Filing Season. Without the required EPD, the IRS was unable to perform computer matches to verify filed claims or verify that individuals who received the APTC filed a tax return as required.

In addition, EPD data and Forms 1095-A data are not consistent. As such, TIGTA continues to recommend that Forms 1095-A data be included in the systemic PTC verification process in an effort to maximize verification resources.

Finally, the IRS is sending erroneous notifications to the Exchanges and individuals indicating that the individual received the APTC but did not file the required tax return. For example, TIGTA analysis identified that the IRS erroneously notified the Exchanges that a required Tax Year 2014 return was not filed for 87,271 (25 percent) of the 342,450 individuals for whom the IRS sent notifications. These erroneous notifications could result in denial of the APTC for the 2016 coverage year or delay the receipt of APTC payments while the individual provided proof that they had in fact filed a tax return.

WHAT TIGTA RECOMMENDED

TIGTA made six recommendations to the IRS. These recommendations included working with the Exchanges to ensure that they submit the required data to the IRS timely, modifying systemic PTC verification processes to include Form 1095-A data, and updating verification processes that resulted in individuals receiving potentially erroneous PTC.

IRS management agreed with four of the six recommendations. The IRS did not agree that it should revise systemic PTC verification processes to include Form 1095-A data. In addition, the IRS did not agree to correspond with all taxpayers who claim the PTC for which no EPD or Form 1095-A data exist.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 2, 2017

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Affordable Care Act: Verification of Premium Tax Credit Claims During the 2016 Filing Season (Audit #201640309)

This report presents the results of our review to evaluate the effectiveness of the Internal Revenue Service's (IRS) verification of Premium Tax Credit (PTC) claims during the 2016 Filing Season as a follow-up to our prior review of the IRS's verification of PTC claims during the 2015 Filing Season. This audit was included in our Fiscal Year 2016 Annual Audit Plan and addresses the major management challenge of Implementing the Affordable Care Act and Other Tax Law Changes.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).

Table of Contents

Appendices

Abbreviations

ACA	Affordable Care Act
ACM	Alternative Calculation for Year of Marriage
APTC	Advance Premium Tax Credit
CMS	Centers for Medicare and Medicaid Services
EPD	Exchange Periodic Data
FPL	Federal Poverty Level
IRS	Internal Revenue Service
PTC	Premium Tax Credit
SLCSP	Second Lowest Cost Silver Plan
SPA	Shared Policy Allocation
TIGTA	Treasury Inspector General for Tax Administration

Background

The Affordable Care Act (ACA)[1] created the Health Insurance Marketplace, also known as the Exchange. The Exchange is where taxpayers find information about health insurance options, purchase qualified health plans, and, if eligible, obtain help paying premiums and out-of-pocket costs. To obtain help paying premiums, the ACA created a new refundable tax credit, the Premium Tax Credit (PTC), to help offset the cost of health care insurance for those with low or moderate income. Because the PTC is a refundable credit, individuals who have little or no income tax liability can still benefit.[2] Figure 1 lists eligibility requirements to purchase insurance through an Exchange and qualify for the PTC.

Figure 1: Eligibility Requirements to Purchase Health Insurance Through an Exchange and Qualify for the PTC

Exchange Eligibility Requirements	PTC Eligibility Requirements
Individuals must: • Live in the United States. • Be a U.S. citizen or national or be lawfully present. • Not be currently incarcerated.	**Individuals must:** • Buy health insurance through the Exchange. • Be ineligible for Minimum Essential Coverage[3] through an employer or Government plan. • Be within certain income limits.[4] • File an income tax return (generally a joint tax return, if married) • Not be claimed as a dependent on another tax return.

Source: IRS.gov and Healthcare.gov.

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[1] Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

[2] Refundable tax credits can be used to reduce a taxpayer's tax liability to zero. Any excess of the credit beyond the tax liability can be refunded to the taxpayer.

[3] Minimum Essential Coverage is health insurance coverage that contains essential health benefits including emergency services, maternity and newborn care, and preventive and wellness services. Minimum Essential Coverage also includes doctor visits, hospitalization, mental health services, and prescription drugs.

[4] The taxpayer's household income must generally be at least 100 percent but not more than 400 percent of the Federal Poverty Level (FPL) for the taxpayer's family size. For example, for the 2016 Filing Season (the 2015 taxable year), this equated to $23,850 to $95,400 for a family of four not living in Alaska or Hawaii. The FPL is a measure of income level issued annually by the Department of Health and Human Services and is used to determine eligibility for certain programs and benefits. More information on the FPL can be found at https://www.healthcare.gov/glossary/federal-poverty-level-FPL.

Health insurance Exchange eligibility and enrollment process

The Centers for Medicare and Medicaid Services (CMS) operates the Federally Facilitated Exchange and works with States to establish State-Based and State Partnership Exchanges, including overseeing their operations. During the Calendar Year 2015 health insurance enrollment period, the District of Columbia and 13 States operated their own Exchanges, while the remaining 37 States partnered with the Federally Facilitated Exchange. Figure 2 shows the Federally Facilitated and State-Based Exchanges during Calendar Year 2015.

Figure 2: Federally Facilitated and State-Based Exchanges for Calendar Year 2015

Federally Facilitated Exchange			State-Based Exchanges
Alabama	Michigan	Oregon	California
Alaska	Mississippi	Pennsylvania	Colorado
Arizona	Missouri	South Carolina	Connecticut
Arkansas	Montana	South Dakota	District of Columbia
Delaware	Nebraska	Tennessee	Hawaii
Florida	Nevada	Texas	Idaho
Georgia	New Hampshire	Utah	Kentucky
Illinois	New Jersey	Virginia	Maryland
Indiana	New Mexico	West Virginia	Massachusetts
Iowa	North Carolina	Wisconsin	Minnesota
Kansas	North Dakota	Wyoming	New York
Louisiana	Ohio		Rhode Island
Maine	Oklahoma		Vermont
			Washington

Source: Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation Brief, Health Insurance Marketplaces 2015 Open Enrollment Period: March Enrollment Report (March 2015).

The Exchanges have sole responsibility for determining if an individual is eligible to purchase health insurance as well as determining the amount of advance payments of the PTC (Advance PTC or APTC) for which an individual is eligible. The Exchanges use a combination of Federal and State data sources to determine eligibility, including information provided by the Department of Homeland Security, the Internal Revenue Service (IRS), and the Social Security Administration. For example, the IRS provides tax return information for applicants and their family members that can be used by the Exchange in conjunction with other income data to verify an individual's estimated household income[5] for the next calendar year. The Exchange uses this estimated household income and family status to determine if an individual is eligible for the APTC.

Once the Exchange determines the amount of the APTC for which an individual is eligible, the individual then elects the actual amount to be sent to the insurer on a monthly basis. Individuals can elect to have all, a portion, or none of the APTC to which they are entitled sent to their insurer. Once an individual selects insurance coverage and determines the amount of the APTC to send to the insurer, the insurer submits the information to the CMS, which then sends a request to the U.S. Department of the Treasury's Bureau of the Fiscal Service to issue monthly APTC payments to the individual's insurance provider. According to the IRS, total APTC disbursements for Fiscal Year 2016[6] were more than $28.3 billion.

The ACA requires the Exchanges to provide the IRS with enrollment data

Internal Revenue Code Section (§) 36B(f)(3) requires the Federal Exchange and State Exchanges to report enrollment data to the IRS. Treasury Regulation § 1.36B–5, *Information Reporting by Exchanges*, issued May 7, 2014, requires this information to be reported both monthly (by the 15th of each month) as well as annually (by January 31). The monthly data are referred to as Exchange Periodic Data (EPD). Each monthly EPD submission is to be cumulative and contains information for Exchange enrollees. The annual data are referred to as Form 1095-A, *Health Insurance Marketplace Statement*. The data provided by the Exchanges monthly and annually are to include:

- Individuals and families enrolled in a qualified health plan through the Exchange.
- Coverage start and end date of the qualified health plan.
- Monthly premium amount for the qualified health plan.
- Amount of the APTC paid for coverage under the qualified health plan.
- Information as to whether the individual was offered Minimum Essential Coverage from their employer.

The Exchanges can continuously make updates and corrections to the EPD each month through April of the following year. If the Exchanges timely submit the EPD for the full coverage year for all Exchange enrollees in mid-January as required, subsequent monthly EPD submissions should only include corrections and updates. Because the EPD is cumulative, the IRS refreshes (overlays) the EPD file each month for each Exchange.

[5] Taxpayer's modified adjusted gross income plus that of every other member of their family who is required to file a Federal income tax return.
[6] A fiscal year is any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

Reconciliation of APTC amounts received and PTC claims

The IRS is responsible for determining the amount of the PTC a taxpayer is entitled to receive based on the household income and family size reported on his or her tax return. Taxpayers who purchased insurance through an Exchange are required to file a tax return and attach Form 8962, *Premium Tax Credit (PTC)*, to claim the PTC and reconcile any APTC payments made to an insurer on their behalf. This reconciliation is necessary because the actual household income and family size reported on their tax return can be different from the estimates used by the Exchange to determine the allowable APTC. In addition, taxpayers who did not receive the benefit of the APTC must file Form 8962 to claim the PTC.

The IRS's process to verify the amount of allowable PTC an individual is entitled is complicated. Once the IRS receives data from the Exchanges, the IRS must group the data to identify the tax household.[7] The IRS then totals the premium amount fields, which requires using multiple files. The calculated taxpayer contribution amount along with the insurance premium amount and the Second Lowest Cost Silver Plan (SLCSP) premium amount[8] determines the taxpayer's allowable PTC. Finally, the allowable PTC amount needs to be reconciled with information from the Exchanges regarding the amount of the taxpayer's APTC.

Taxpayers who are entitled to more PTC than was received in advance receive the additional credit as a refund on their tax returns. However, taxpayers who received more PTC in advanced payments than they were entitled must repay the excess when filing their tax return. The amount to be repaid is subject to certain limitations because the ACA limits the amount of the APTC that individuals with household income between 100 percent and 400 percent of the Federal Poverty Level (FPL) will have to repay. Individuals whose actual household income exceeds 400 percent of the FPL are not eligible to receive the PTC and are required to repay the full amount of any APTC they received. Figure 3 lists the repayment limits for individuals with household income less than 400 percent of the FPL.

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[7] The tax household consists of the taxpayer and any individuals who are claimed as dependents on one Federal income tax return. A tax household may include a spouse and dependents.

[8] The SLCSP refers to the level of coverage provided by the health plan. Health plans offered by the Exchange will be categorized as Platinum, Gold, Silver, Bronze, or Catastrophic, depending on the share of costs covered.

Figure 3: Limit on Repayment – Individuals Receiving Excess APTC

Household Income Percentage of the FPL	Repayment Limit – Filing Status Single	Repayment Limit – Filing Status Other Than Single
• Less Than 200%	$300	$600
• 200% but Less Than 300%	$750	$1,500
• 300% but Less Than 400%	$1,250	$2,500
• 400% or More	No Limit	No Limit

Source: Treasury Regulation § 1.36B-4.

A prior Treasury Inspector General for Tax Administration (TIGTA) review noted that delays in receiving the EPD reduced the IRS's ability to verify PTC claims

In March 2016, we reported[9] that delays in receiving Exchange data reduced the IRS's ability to verify PTC claims efficiently. Our analysis of tax returns filed between January 20, 2015, and May 28, 2015, identified 438,603 tax returns for which the IRS either did not have the EPD at the time the tax returns were processed or the EPD were incorrect. Without the required EPD, the IRS is unable to ensure that individuals claiming the PTC purchased insurance through an Exchange as required. The IRS developed processes to verify PTC claims for which it did not have the EPD, including manually verifying claims to available Form 1095-A data. However, even with the use of Form 1095-A data, the IRS was unable to verify all PTC claims because not all State Exchanges submitted Form 1095-A data to the IRS timely or in a usable format.

TIGTA also reported that our analysis of more than 2.6 million tax returns filed between January 20, 2015, and May 28, 2015, in which the taxpayer either claimed the PTC or should have reconciled the APTCs per the EPD, found that the IRS accurately determined allowable PTCs on more than 2.4 million (93 percent) returns. For the remaining 182,884 tax returns, we determined:

- 27,827 returns had PTC calculation errors resulting from computer programming or computer hardware errors. These errors resulted in taxpayers receiving approximately $21.8 million more in the PTC than they were entitled to receive. In addition, 46 taxpayers received $5,390 less in the PTC than they were entitled to receive.
- 4,672 tax returns had errors resulting from the IRS's limited authority to adjust taxpayer claims at the time tax returns are filed. Each of these taxpayers' reported household income was more than 400 percent of the FPL requiring repayment of 100 percent of the

[9] TIGTA, Ref. No. 2016-43-033, *Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season* (Mar. 2016).

APTC received. However, the ACA does not grant the IRS the authority to systemically correct tax returns with PTC claims when a discrepancy exists between information reported by the taxpayer and the EPD. For each of the 4,672 returns, the taxpayer did not self-report all of the APTC received on the tax return. As a result, these taxpayers received approximately $6.5 million in the APTC that they were not entitled to receive.

- 150,385 tax returns for which we had not determined the cause of the discrepancy between our calculation and the IRS's calculation at the time our report was issued.

Subsequent to issuing our report, we determined that the difference between TIGTA's calculation and the IRS's calculation for 106,618 (71 percent) of the previously mentioned 150,385 returns resulted from discrepancies in the EPD files that TIGTA had available at the time we performed our calculations and the EPD that the IRS had available at the time the tax return was processed. The Exchanges may correct records in their EPD each month, *e.g.*, correct an individual previously reported premium amount. Any new submissions or corrections will overlay the prior months' EPD. As a result, we cannot determine which of the EPD are correct for the purposes of calculating allowable PTC nor can we determine the accuracy of the PTC calculation.

This review was performed with information obtained from IRS Headquarters in Washington, D.C.; the ACA Office in Washington, D.C.; the ACA Program Management Office within the IRS Chief Technology Office in New Carrollton, Maryland; and the IRS Wage and Investment Division, Submission Processing office in Cincinnati, Ohio, during the period December 2015 through August 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

As of June 30, 2016, the IRS processed more than 5.2 million tax returns for which taxpayers received approximately $20.3 billion in the PTC received in advance or claimed at the time of filing. Figure 4 presents PTC statistics for Processing Years 2015 and 2016.

Figure 4: PTC Statistics for Processing Years 2015 and 2016[10]

	Processing Year 2015 as of June 11, 2015	Processing Year 2016 as of June 30, 2016
Total Tax Returns With the PTC	**2,960,786**[11]	**5,270,655**
Total PTC Amount (includes the APTC and the PTC)	$9.8 billion	$20.3 billion
Total APTC Amount	*$9 billion*	*$18.9 billion*
Total PTC Claimed at Filing in Excess of the APTC	*$750.5 million*	*$1.4 billion*
Tax Returns in Which the PTC Equals the APTC Received		
Tax Returns	137,207	155,111
Total PTC Amount	$566.4 million	$644.3 million
Tax Returns With Additional PTC – (taxpayer is entitled to more PTC than was received in the APTC)		
Total Tax Returns	1,247,100	2,202,708
Total PTC Amount (includes the APTC and the PTC)	$4.9 billion	$9.1 billion
Total APTC Amount	*$4.1 billion*	*$7.7 billion*
Total PTC Claimed at Filing in Excess of the APTC	*$750.5 million*	*$1.4 billion*

[10] Subtotals do not always equal the totals due to rounding.
[11] In our previous report, TIGTA, Ref. No. 2016-43-033, *Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season* (Mar. 2016), the total APTC Amount figure did not include $1,275,067,850 which was notated in the footnote of that report. To make this comparable to Processing Year 2016 statistics, we increased the Total APTC Amount by the amount of the APTC that was repaid.

Tax Returns With Excess APTC Payments - (taxpayer receives more APTC than the PTC entitled and has to repay)		
Total Tax Returns	1,576,479	2,912,836
Total PTC Amount	$3.7 billion	$6.8 billion
Total APTC Amount	$5.7 billion	$10.6 billion
Total APTC Reported in Excess of the PTC	$1.9 billion	$3.8 billion
Total APTC Above the Repayment Limit (not repaid)	*$652.9 million*	*$1.4 billion*
Total APTC Below the Repayment Limit (repaid)	*$1.3 billion*	*$2.4 billion*

Source: TIGTA analysis of Individual Master File posted tax return information as of June 11, 2015, (Cycle[12] 23) and June 30, 2016 (Cycle 26).

Delays in Receiving Exchange Periodic Data Continue to Reduce the Ability to Efficiently Verify Premium Tax Credit Claims

Similar to what we reported for the 2015 Filing Season, not all Exchanges provided required EPD to the IRS prior to the start of the 2016 Filing Season. For example, the Federal Exchange and five State Exchanges had not provided the required EPD to the IRS:

- The Federal Exchange did not include all of the required coverage months for two States (Florida and Ohio). Three State Exchanges (Colorado, Connecticut, and Massachusetts) also did not provide data for all of the required coverage months. For example, the data provided from the Connecticut Exchange included coverage from January 2015 to August 2015, whereas the IRS should have received coverage data through November 2015.
- Two State Exchanges (Hawaii and Minnesota) did not submit any usable EPD as of the start of the filing season. These Exchanges also experienced delays in reporting their EPD in the 2015 Filing Season.

Internal Revenue Code § 36B(f)(3) requires the Federal Exchange and State Exchanges to report EPD information to the IRS. Treasury Regulation § 1.36B–5, *Information Reporting by Exchanges*, issued May 7, 2014, requires this information to be reported both monthly (by the 15th of each month) as well as annually (by January 31). In December 2015, the IRS should have received monthly data covering the period January 2015 to November 2015, for use in verifying claims as of the start of the 2016 Filing Season (January 19, 2016).

[12] The IRS method of documenting dates, *e.g.*, cycle 201602 is the second week of January 2016.

Timeliness of receipt of the EPD improved over the 2015 Filing Season

Our analysis of the IRS's receipt of the EPD during the 2016 Filing Season showed that the delay in the IRS receiving the EPD from these Exchanges was significantly shorter when compared to delays associated with the 2015 Filing Season. For example, as of February 28, 2016, the IRS received EPD for the entire 2015 coverage year from the Federal Exchange and 13 of the 14 State Exchanges. In comparison, prior to the start of the 2015 Filing Season, the IRS did not receive EPD from the Federal Exchange and six State Exchanges (Colorado, Connecticut, District of Columbia, Hawaii, Minnesota, and Washington). The IRS did not receive all of the required EPD from the Federal Exchange and all State Exchanges for the 2015 Filing Season until June 25, 2015. Figure 5 shows the timeliness of the Exchanges' submission of the EPD for enrollees in the 50 States and the District of Columbia for the 2016 Filing Season.

Figure 5: Status of Required EPD Submissions[13]

Date the EPD Loaded for Use in Verifying Tax Returns	EPD Coverage Periods	States Reporting Required EPD	States Not Reporting Required EPD	
			Partial EPD	No EPD
January 9, 2016	January through November 2015	44	5[14]	2[15]
February 7, 2016	January through December 2015	38	12[16]	1
February 28, 2016	January through December 2015	50	0	1

Source: TIGTA analysis of IRS EPD Submission Reports for the 2016 Filing Season.

Without the required EPD, the IRS is unable to ensure that individuals claiming the PTC met the most important eligibility requirement that insurance was purchased through an Exchange. The IRS also cannot systemically verify tax returns to effectively and efficiently identify erroneous PTC payments or ensure that the APTC is reconciled. Instead, the IRS has to expend additional resources for the manual verification of PTC claims.

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[13] The number of States presented includes the District of Columbia.
[14] Two of these States participated in the Federal Exchange (Florida and Ohio) and three States operated their own Exchange (Colorado, Connecticut, and Massachusetts).
[15] These two States operated their own Exchange (Hawaii and Minnesota). Hawaii operated its own Exchange and provided no EPD for the 2016 Filing Season.
[16] Nine States participated in the Federal Exchange and three States operated their own Exchange (Connecticut, District of Columbia, and New York).

Because certain EPD were not received, the IRS had to continue to use manual processes to verify PTC claims

Our review of tax returns with PTC claims filed between the period of January 25, 2016, and March 4, 2016, identified 33,248 returns associated with Exchanges for which the IRS did not receive the EPD or the EPD provided was unusable. Similar to the 2015 Filing Season, the IRS continues to use manual processes developed in an effort to verify PTC claims associated with the Exchanges that did not provide the required EPD. These processes include projecting[17] monthly EPD amounts for individuals for whom the IRS has partial year EPD and suspending tax returns until the EPD are available to verify the return. These processes also include manually researching Form 1095-A data files. Once the IRS receives and loads the Form 1095-A data files from the Exchanges (required to be provided to the IRS by January 31), the IRS will research the Form 1095-A data to verify entries on returns that it could not systemically verify against the EPD.

The IRS did note that some returns were also suspended from processing between January 25, 2016, and March 4, 2016, with the expectation that it would be able to systemically verify the returns (rather than manually searching Forms 1095-A) once the EPD were eventually received. After releasing suspended tax returns, the IRS systemically verifies the returns against the new/updated EPD. If there is a discrepancy, the IRS manually researches the Form 1095-A data and/or corresponds with the taxpayer to request support for the PTC claim. However, at the time the majority of these tax returns were suspended, Form 1095-A data were not due yet or the Exchange was late in submitting the information. The suspense period of these tax returns ranged from nine calendar days to 32 calendar days.

Delays in Receiving Form 1095-A, Health Insurance Marketplace Statement, Data Further Reduce the Ability to Efficiently Verify Premium Tax Credit Claims and Increase Taxpayer Burden

Similar to what we reported for the 2015 Filing Season, not all Exchanges provided Forms 1095-A data as of January 31, 2016, as required. For example, the IRS did not receive Form 1095-A data from six State Exchanges (Connecticut, District of Columbia, Hawaii, Idaho, Kentucky, and Maryland). The Exchanges are required to provide an annual summary, *i.e.*, Forms 1095-A, to both the IRS and the individual detailing specific information related to the individual's enrollment. As previously discussed, the IRS uses Form 1095-A data to manually verify PTC claims for which it does not have the EPD, as well as verifying PTC claims

[17] The IRS uses information from prior coverage months to project the EPD for months for which it did not receive data, *e.g.*, November data used to project December. The IRS will always have to project the EPD for December for all tax returns filed between the start of the filing season and early February, when the IRS receives the EPD for the full coverage year. However, the IRS had to project for more than just one month for the five States previously listed because they did not report coverage for January to November 2015 as required.

for which it has the EPD but there is a discrepancy between the information reported on the tax return and the EPD. Without the Form 1095-A data, the IRS must correspond with the taxpayer to request a copy of the Form 1095-A, so that it can verify the PTC claim. This further burdens those taxpayers for whom the IRS has already suspended the processing of their tax return pending receipt of the EPD.

Timeliness of receipt of Form 1095-A data improved over the 2015 Filing Season

Our analysis of the IRS's receipt of Form 1095-A data during the 2016 Filing Season shows that the delay in the IRS receiving Form 1095-A data from the six Exchanges was significantly shorter when compared to delays associated with the 2015 Filing Season. For example, as of January 31, 2016, the IRS did not receive Form 1095-A data from six State Exchanges (Connecticut, District of Columbia, Hawaii, Idaho, Kentucky, and Maryland). In comparison, for the 2015 Filing Season, only 40 of the 50 States and the District of Columbia submitted Form 1095-A data as of January 31, 2015. Figure 6 shows the timeliness of the Exchanges' submission of Form 1095-A data for enrollees in the 50 States and the District of Columbia for the 2016 Filing Season.

Figure 6: Status of Form 1095-A Data Submissions[18]

Date of Form 1095-A Data Submissions	Count of States
Prior to January 31, 2016 *(required due date)*	45
Between February 1, 2016 and February 9, 2016	3[19]
Between February 10, 2016 and February 29, 2016	2[20]
Subsequent to February 29, 2016	1[21]

Source: TIGTA analysis of IRS Form 1095-A Submission Reports for the 2016 Filing Season.

Perfection of data and system issues were cited as reasons for delays in transmitting the EPD and Form 1095-A data as required

We attempted to contact representatives from the Federal Exchange and seven State Exchanges (Connecticut, District of Columbia, Hawaii, Idaho, Maryland, Massachusetts, and Minnesota) that did not timely provide required EPD and/or Form 1095-A data. For the Federal Exchange and five State Exchanges that did respond, the following contributing factors were provided for their inability to timely provide required EPD and Form 1095-A data:

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[18] The number of States presented includes the District of Columbia.
[19] These three States operated their own Exchanges: Idaho, Kentucky, and Maryland.
[20] These two States operated their own Exchanges: District of Columbia and Hawaii.
[21] Connecticut operated its own Exchange.

- Extended time needed to conduct reviews of the data to ensure the accuracy of the data provided to the IRS, such as the need to perform extensive reconciliation with the insurers.
- System issues with the Exchanges trying to submit data in a different file format than IRS specifications required. Some Exchanges reported that the system issues resulted from their misinterpretation of the IRS's specifications and reject codes.
- Transition issues from moving oversight of Exchange from an external organization to a State.

The Exchanges also stated that they were performing system upgrades and continuing to perfect the process of reconciling their data with insurers to help ensure that submissions of Form 1095-A data and the EPD for the 2017 Filing Season are timely.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should continue to work with the CMS to ensure that the Federal Exchange and all State Exchanges submit required EPD and Form 1095-A data to the IRS by the established due dates.

> ***Management's Response:*** The IRS agreed with this recommendation. The IRS will continue to have ongoing meetings with each Exchange to provide both broad support and targeted subject-matter expertise to help them meet the reporting requirements. The ACA Program Management Office will also continue to work closely with the Wage and Investment Division when engaging with the CMS on marketplace reporting.

Resources Were Needlessly Expended Because Forms 1095-A, Health Insurance Marketplace Statement, Data Were Not Included in the Systemic Premium Tax Credit Verification Process

Systemically matching tax returns to ***both*** the EPD and Form 1095-A data could enable the IRS to increase the efficiency by which it identifies potentially erroneous PTC claims at the time tax returns are processed. On December 8, 2014,[22] as part of a prior PTC review, we alerted IRS management to our concerns regarding the IRS's decision not to use Form 1095-A data as the information becomes available, in conjunction with the EPD, to verify PTC claims at the time tax returns are processed. We recommended that the IRS revise computer programming to include the use of Forms 1095-A as the primary third-party data source with the EPD used as a secondary source to verify the PTC at the time tax returns processed. IRS management

[22] TIGTA, Ref. No. 2015-43-043, *Affordable Care Act: Assessment of Internal Revenue Service Preparation for Processing Premium Tax Credit Claims* (May 2015).

disagreed with our recommendation, stating that the data on Forms 1095-A are the same data that are included in the EPD used to verify tax returns.

As discussed previously, although the IRS does not include the Forms 1095-A data in its systemic verification, the IRS does manually research the data for each potentially erroneous PTC claim above the processing tolerance when the EPD are not available or does not match taxpayer reported amounts. The IRS has two tools employees can use to research Form 1095-A data. These tools are the Integrated Data Retrieval System[23] and the Business Objects Enterprise[24] application. The IRS reports that employees used the Business Objects Enterprise application tool to research Form 1095-A data associated with 44,234 tax returns through June 30, 2016. If the systemic verification process included Forms 1095-A data, no manual review would have been required for these 44,234 tax returns. It should be noted that we are unable to determine the full potential benefit of including Forms 1095-A in the systemic verification process because the IRS does not track the number of returns for which employees search Form 1095-A data using the Integrated Data Retrieval System.

There are differences in the Forms 1095-A data and the EPD

In response to our prior recommendation to include Forms 1095-A data in its systemic verification process, IRS management disagreed, citing that the data on the Form 1095-A are the same data that are included in the EPD used to verify tax returns. However, our match of Forms 1095-A data to EPD data identified that management's assertion is incorrect. Our analysis found that discrepancies do in fact exist between the information contained in the EPD and the information on the Forms 1095-A. This supports our prior recommendation that the IRS should use both the Forms 1095-A and the EPD as part of the systemic process to verify PTC claims at the time tax returns are processed. For example, when a tax return is filed with a PTC claim, computer programs could continue to verify the tax returns against the EPD. However, if the IRS does not identify the EPD for the filer or finds a discrepancy between the tax return and the EPD, the IRS could then perform a secondary systemic match to the Forms 1095-A.

To confirm that the Form 1095-A data are not always a subset of the EPD, we matched the Form 1095-A data received by the IRS as of April 3, 2016, to the EPD as of two dates during the 2016 Filing Season:

- February 7, 2016 - the date the IRS should have the EPD for the entire 2015 coverage year from all the Exchanges.
- February 28, 2016 - the date the IRS finally received the EPD for the entire coverage year data from all but one Exchange.

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[23] An IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
[24] The IRS's business intelligence platform that provides users tools and applications for reporting, querying, and analyzing ACA information.

Although differences exist between the two data sources, our comparison of insurance policy data did find the discrepancies between the two data sources decrease as the filing season progresses. Figure 7 presents the results of our comparison.

Figure 7: Comparison of the EPD to Form 1095-A Data[25]

Policy Analysis	Match Performed February 7, 2016	Match Performed February 28, 2016
Total policies in Form 1095-A data	**10,818,660**	**10,818,660**
Total policies in the EPD	**10,444,953**	**10,699,048**
Policies reported in both Forms 1095-A and the EPD	10,303,742	10,673,834
At least one key element needed to verify the PTC does not match[26]	2,588,985 (25%)	591,548 (6%)
Policies reported on Form 1095-A not reported in the EPD	514,918	144,826
Policies reported in the EPD not reported on Form 1095-A	141,211	25,214

Source: TIGTA analysis of Form 1095-A and EPD data sets.

Overall, the IRS must rely on both the EPD and Form 1095-A data to increase the efficiency in which it verifies the accuracy of PTC claims. In the current environment of reduced funding, it is important that the IRS develop processes to use available data efficiently so that it can maximize its limited resources to address those PTC claims for which an error is likely. Technology improvements to systemically search for Form 1095-A data would free up additional resources within the Error Resolution function to expand on the number of potentially erroneous tax returns it can address.

Recommendation

Recommendation 2: The Commissioner, Wage and Investment Division, should revise systemic PTC verification processes to include Form 1095-A data.

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[25] Figure 7 does not include results from the Maryland Exchange because the policy numbers reported by Maryland in the Form 1095-A data and the EPD were not comparable. These effect 108,913 policy numbers reported in the Form 1095-A data.

[26] At a minimum, the IRS needs the premium amount and the APTC to verify the PTC. Due to changes in circumstances, the taxpayer can report SLCSP amounts that vary from the EPD and the IRS will accept them. We were able to verify that the premium, the APTC, and the SLCSP matched between the Form 1095-A and the EPD for 85 percent of the returns. The remaining 15 percent were matched on premium and the APTC only.

Management's Response: The IRS disagreed with this recommendation. The IRS responded that the EPD is designed to be available for use at the beginning of the filing season, while Form 1095-A data are not required to be filed until January 31 and would likely not be available for use by the systemic PTC verification process until late February or early March. The IRS also believes the benefit of eventually having the data available systematically would not justify the cost and complexity of the requisite programming and would not provide a significantly greater benefit than the current process that uses Form 1095-A data as a secondary source of information. In addition, systemic verifications using Form 1095-A data during processing will pose programming complexity which could negatively affect timely processing of tax returns that include the PTC.

Office of Audit Comment: The IRS has not provided us with a cost-benefit analysis justifying this position. As our report details, the IRS needlessly expends resources to have employees manually research the Forms 1095-A data to verify claims. For example, IRS employees manually researched Forms 1095-A data for 44,234 tax returns. Moreover, the actual number is likely much higher since the IRS does not track employee manual research via the Integrated Data Retrieval System. The IRS should reassess the resources that could be saved from eliminating a manual review by integrating Forms 1095-A into its systemic verification process.

The Allowable Premium Tax Credit Was Computed Correctly for the Majority of Tax Returns; However, Some Claims Continue to Be Processed in Error

We evaluated more than 5 million[27] tax returns processed by the IRS as of May 1, 2016, in which the taxpayer either claimed the PTC or should have reconciled the APTCs per the EPD. We were unable to determine the accuracy of the processing of 157,931 tax returns because of discrepancies between the EPD available at the time we performed our review and the EPD that the IRS used to process the tax returns. For example,[28] the IRS may have had the EPD that showed $3,000 for total monthly premium and no amounts for the SLCSP or the APTC at the time it processed the tax return, whereas the EPD that TIGTA relied upon may have shown $2,800 for total monthly premium as well as amounts for the SLCSP and the APTC. We provided these returns to the IRS for further evaluation. However, it should be noted that 150,185 (95 percent) of the 157,931 tax returns would not have been identified by the IRS for

[27] Figure does not include tax returns claiming a Shared Policy Allocation or an Alternative Calculation for Marriage as we are including a separate section of our report detailing our analysis of these claims and accuracy of IRS verification of these PTC claims. This also does not include 10,266 returns for which TIGTA incorrectly calculated the allowable PTC as a result of limitations in TIGTA programming.

[28] The example provided is hypothetical.

further review as the dollar amount of the PTC discrepancy was below the IRS's tolerance to address the discrepancy.

For the remaining 4.9 million tax returns, the IRS accurately determined the amount of allowable PTC[29] on more than 4.7 million (97 percent). For example, we found that the IRS's at-filing error screening and identification processes are working as intended. The IRS appropriately identified tax returns with discrepancies between amounts reported by the taxpayer and amounts reported in the EPD for monthly premium, the SLCSP, and the APTC. For the remaining 154,744 (3 percent) tax returns, we determined the following:

- 123,251 tax returns – the IRS did not identify the claim as potentially erroneous as the discrepancy between the amount reported by the taxpayer and amount reported in the EPD was below the dollar tolerance for which the IRS will review a claim. Our analysis of these cases identified that the use of a dollar tolerance is resulting in the IRS not verifying high-risk PTC claims. The 123,251 returns include:
    - 123,084 tax returns for which there was no EPD for the taxpayer. Our additional analysis identified that the IRS received a Form 1095-A for 59,621 (48 percent) of the 123,084 tax returns confirming the individual enrolled in an Exchange. For the remaining 63,463 (52 percent) returns, the IRS had no EPD or Form 1095-A. These returns received the PTC totaling $123 million.
    - 167 tax returns for which a blank Form 8962 was included with the tax return. Even though the Form 8962 was blank, the IRS treats the tax return the same as if the Form 8962 included actual amounts. The IRS performed no review of these claims as the PTC discrepancies were below the IRS dollar tolerance for selection. Had the IRS treated these taxpayers the same as taxpayers who did not file a Form 8962, the IRS would have identified these 167 returns for additional review. As a result, these taxpayers received $87,580 more in the PTC[30] than they were entitled to receive. IRS management informed us that the decision to treat taxpayers who file a blank Form 8962 the same as those who file a completed Form 8962 allows for consistent treatment of APTC discrepancies in all filing situations by simply looking for the presence of a Form 8962. IRS management informed us that they would consider revising the IRS's treatment of these types of PTC claims. However, management indicated that the IRS would be unable to make any changes to existing processes until at least Processing Year 2018.
- 31,493 tax returns – programming errors caused the IRS to incorrectly compute the allowable PTC amount. As a result, 16,375 taxpayers potentially received approximately $5.2 million more in the PTC than they were entitled to receive, and 15,118 returns

[29] The IRS correctly identified questionable returns for review. The IRS attempts to verify tax returns that meet certain dollar tolerances. Tax returns below the tolerances are processed as filed without verification.
[30] All of the $87,580 in the PTC was received by the taxpayer in advance of filing.

potentially received approximately $6.7 million less in the PTC than they were entitled to receive. IRS management informed us that programing was updated on or before July 31, 2016. We will evaluate the IRS's corrective action in our annual assessment of the 2017 Filing Season.

The IRS did provide TIGTA with documentation supporting the dollar tolerances used to address PTC discrepancies during the 2016 Filing Season. The information included analysis regarding the costs to the IRS, the number of employees available, associated risks, *etc*. IRS management informed us that establishing tolerances were necessary to allow the IRS to commit available resources to those tax returns with the potential for higher improper payments or error conditions deemed more significant. IRS management informed us that the IRS evaluates the processing tolerances each year and makes adjustments as necessary. With the exception of the IRS's use of tolerances on returns for which the IRS does not have the EPD or Form 1095-A data, we agree with the IRS's use of processing tolerances when verifying PTC claims. We plan to continue monitoring the IRS's verification of PTC claims as part of our assessment of the 2017 Filing Season.

Revisions to the IRS's systemic and manual verification processes increased the number of potentially erroneous PTC claims the IRS was able to verify during the filing season

Revisions made to both its systemic and manual verification processes during the 2016 Filing Season enabled the IRS to address more tax returns with potentially erroneous PTC claims than in the 2015 Filing Season. For example, technology improvements allowed the IRS to identify tax returns during processing that met certain conditions and release the returns that did not meet established dollar tolerances without sending them to the Error Resolution function to be manually coded and released. This allowed the IRS to lower its established dollar tolerances and increase the number of potentially erroneous PTC claims worked. For example, the IRS was able to more than double the number of tax returns it worked that did not file a Form 8962 when the EPD indicated that the filer received the APTC.

However, despite the IRS's improvements, as of May 1, 2016, the IRS did not verify 903,488 returns with a discrepancy between amounts reported by the taxpayer and amounts reported in the EPD due to the use of dollar tolerances. Our analysis of these unaddressed returns identified that 511,384 returns may have received approximately $546 million less in the PTC than entitled, and 392,104 returns may have received approximately $111 million more in the PTC than entitled.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 3: Establish processes to correspond with all taxpayers who file a tax return claiming the PTC for which the IRS has no EPD and Form 1095-A data regardless of the dollar amount of the claim.

> ***Management's Response:*** The IRS disagreed with this recommendation. IRS management stated the IRS has processes in place to correspond with taxpayers who claim the PTC on a tax return and there is no corresponding EPD or Form 1095-A data available. The issue is one of balancing constrained resources with projected workload demand and determining the level of risk at which a discrepancy can be most effectively addressed. Each year, the IRS evaluates tolerances and threshold levels to maximize the use of its limited resources. Because tolerances and thresholds are a function of budgetary resources, the IRS cannot guarantee the availability of adequate funding to implement the recommendation.
>
> ***Office of Audit Comment:*** As it relates to the 63,463 returns with the PTC totaling $123 million, the IRS received no EPD or Form 1095-A supporting that the most basic requirement (*i.e.* that the taxpayer purchased insurance through an Exchange) was met. For these situations, the level of risk clearly warrants the IRS taking action to correspond with these taxpayers.

Recommendation 4: Update verification processes to identify taxpayers who receive the APTC and submit a blank Form 8962 for additional review.

> ***Management's Response:*** The IRS agreed with this recommendation. The IRS will update the Form 8962 processing instructions to reinforce the use of existing procedures when blank forms are encountered.

Processing of Premium Tax Credit Claims With Alternative Computations Was Generally Accurate; However, Improvements Can Be Made for Claims With a Shared Policy Allocation

In certain situations, the ACA allows taxpayers to use alternative methods for calculating their allowable PTC. For example, the:

- Shared Policy Allocation (SPA) requires an allocation of policy amounts between more than one tax family which are enrolled on a single health insurance policy. For example, Former Spouse 1 and Child enroll together on an Exchange health insurance policy but Former Spouse 2 claims Child as a dependent.

- Alternative Computation for Year of Marriage (ACM) allows individuals who were single at the beginning of the calendar year but married at the end of the calendar year to elect to use their pre-marriage family size to compute allowable PTC for the months before the individual married.

Our analysis of tax returns processed between January and May 2016 found that the IRS's processing of SPA and ACM claims was generally accurate. However, computer programming errors resulted in incorrect processing of some SPA claims.

Processing of SPA claims

Our review of 4,013 tax returns processed between January 19, 2016, and February 7, 2016, involving a SPA identified that programming errors resulted in the IRS incorrectly allocating the APTC for 147 returns. To determine if the IRS correctly allocated the APTC, we compared the monthly APTC amounts computed by the IRS for the allocation period to the monthly APTC amounts in the EPD. When these amounts were the same, we concluded that the IRS did not allocate the APTC as requested by the taxpayer, *i.e.*, the APTC associated with the filer should not be the entire amount but rather the allocated percentage listed on the tax return. For the 147 tax returns, the taxpayer claimed an allocation percent other than 100 percent and the IRS did not properly allocate the APTC.

Taxpayers who allocate a single insurance policy to more than one tax family, when certain conditions apply, use Form 8962 Part IV. For example, a married couple might obtain a policy together while married and then later divorce before the end of the year. Because the taxpayers are no longer filing jointly, they can agree to allocate a percentage of the monthly policy premium and the APTCs to each taxpayer. When claiming a SPA, the taxpayer is to provide the policy number, the Social Security Number of the other taxpayer(s) that the policy is shared with, the start and stop months for the allocation period, and the percentages that are allocated to the taxpayer for the premium, the SLCSP, and the APTC. The IRS must match the policy numbers shared by the taxpayer to the EPD records and then apply the allocation percentages reported by the taxpayer.

According to the IRS, a computer programming error resulted in the IRS incorrectly concluding that insurance policy numbers on the tax return and the policy numbers in the EPD did not match. The IRS stated that the computer programming did not consider the policy numbers reported by the taxpayer and the EPD to be a match when there were leading zeros in the right-most 15 characters of the EPD policy number. When the policy numbers do not match, the IRS assumes the taxpayer is responsible for 100 percent of the monthly premium, the SLCSP, and the APTCs reported in the EPD. As a result, the IRS will not allocate a percentage of the APTC. IRS management informed us that the IRS corrected the programming error on July 31, 2016. Figure 8 provides an example of how an individual could accurately report their policy number (123456789) and the IRS could conclude that the policy number did not match due to a computer programming error.

Figure 8: Example of Programming Error on SPA Returns

Form 8962 (2015)	Form 8962 (2015)
Part IV **Shared Policy Allocation**	**Part IV** **Shared Policy Allocation**
Complete the following information for up to four s	Complete the following information for up to four s
Shared Policy Allocation 1	**Shared Policy Allocation 1**
30 **(a)** Policy Number (Form 1095-A, line 2)	**30** **(a)** Policy Number (Form 1095-A, line 2)
Taxpayer Enters = 123456789	EPD Policy Number = 000000123456789

Source: TIGTA example based upon audit findings.

In addition, IRS management indicated that they are developing processes to identify when less than 100 percent of the APTC and more than 100 percent of the premium and SLCSP amounts for one policy are claimed on multiple returns. Because taxpayers can allocate any percentage they agree upon, the IRS cannot perform any compliance checks at filing because all taxpayers who are allocating the policy may not have filed their tax return. The identification of these types of claims will occur post processing because the IRS cannot verify the amount of the allocation that individuals are eligible to take at the time a tax return is processed. IRS management indicated that post-processing compliance functionality would not be in place until the 2018 Filing Season.

Processing of Alternative Computation for Year of Marriage claims

Our review of a judgmental sample[31] of 20 tax returns reporting an ACM during the period of January 19, 2016, to May 1, 2016, found that the IRS correctly computed the allowable PTC for all 20 returns. In addition, our review of the 11,448 tax returns filed with an ACM during this same period found that IRS processes to identify potentially erroneous ACM claims for additional review were also working as intended. For example, processes identified claims in which the family size used in the alternative computation is not less than the family size reported on the return.

Taxpayers who claim an ACM use Form 8962 Part V. Claiming an ACM allows taxpayers who were single at the beginning of the calendar year but married at the end of the calendar year to compute their PTC for the pre-marriage months using a reduced family size and household income. The alternative calculation may change PTC eligibility and lower the monthly contribution for months before marriage, thus reducing or eliminating the APTC repayment. Taxpayers must meet five requirements to be eligible to use an ACM for Tax Year 2015:

- Unmarried on January 1, 2015.
- Married as of December 31, 2015.
- File a joint return with spouse for Tax Year 2015.

[31] A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

- Someone in the tax family must be enrolled in a qualified health plan before the first full month of marriage.
- The APTC must have been paid.

Figure 9 provides an example on page two of Form 8962 used by taxpayers reporting a SPA or an ACM.

Figure 9: Form 8962, Premium Tax Credit, Part IV (SPA) and Part V (ACM)

Form 8962 (2015) Page **2**

Part IV Shared Policy Allocation

Complete the following information for up to four shared policy allocations. See instructions for allocation details.

Shared Policy Allocation 1

30	(a) Policy Number (Form 1095-A, line 2)	(b) SSN of other taxpayer	(c) Allocation start month	(d) Allocation stop month
	Allocation percentage applied to monthly amounts	(e) Premium Percentage	(f) SLCSP Percentage	(g) Advance Payment of the PTC Percentage

Shared Policy Allocation 2

31	(a) Policy Number (Form 1095-A, line 2)	(b) SSN of other taxpayer	(c) Allocation start month	(d) Allocation stop month
	Allocation percentage applied to monthly amounts	(e) Premium Percentage	(f) SLCSP Percentage	(g) Advance Payment of the PTC Percentage

Shared Policy Allocation 3

32	(a) Policy Number (Form 1095-A, line 2)	(b) SSN of other taxpayer	(c) Allocation start month	(d) Allocation stop month
	Allocation percentage applied to monthly amounts	(e) Premium Percentage	(f) SLCSP Percentage	(g) Advance Payment of the PTC Percentage

Shared Policy Allocation 4

33	(a) Policy Number (Form 1095-A, line 2)	(b) SSN of other taxpayer	(c) Allocation start month	(d) Allocation stop month
	Allocation percentage applied to monthly amounts	(e) Premium Percentage	(f) SLCSP Percentage	(g) Advance Payment of the PTC Percentage

34 Have you completed shared policy allocation information for all allocated Forms 1095-A?

☐ **Yes.** Multiply the amounts on Form 1095-A by the allocation percentages entered by policy. Add allocated amounts across all allocated policies with amounts for non-allocated policies from Forms 1095-A, if any, to compute a combined total for each month. Enter the combined total for each month on lines 12–23, columns (a), (b), and (f). Compute the amounts for lines 12–23, columns (c)–(e), and continue to line 24.

☐ **No.** See the instructions to report additional shared policy allocations.

Part V Alternative Calculation for Year of Marriage

Complete line(s) 35 and/or 36 to elect the alternative calculation for year of marriage. For eligibility to make the election, see the instructions for line 9. To complete line(s) 35 and/or 36 and compute the amounts for lines 12–23, see the instructions for this Part V.

35	**Alternative entries for your SSN**	(a) Alternative family size	(b) Monthly contribution	(c) Alternative start month	(d) Alternative stop month
36	**Alternative entries for your spouse's SSN**	(a) Alternative family size	(b) Monthly contribution	(c) Alternative start month	(d) Alternative stop month

Form **8962** (2015)

Source: Form 8962.

Exchanges Were Erroneously Notified That Some Taxpayers Had Not Filed Their Required Tax Return to Reconcile Advance Premium Tax Credit Payments

Our analysis identified that the IRS erroneously notified Exchanges that a required Tax Year 2014 return was not filed for 87,271 (25 percent) of 342,450 individuals the IRS sent notifications. Specifically, for these 87,271 individuals, the IRS notified the Exchanges during the 2016 health insurance enrollment period (November 1, 2015, to January 31, 2016) that the individuals received insurance from an Exchange but did not file a Tax Year 2014 return as required when in fact the individuals filed returns for Tax Year 2014. The majority of the erroneous notifications result from the IRS not using the most current tax return data to verify filings. These erroneous notifications could result in denial of the APTC for the 2016 coverage year or the receipt of APTC payments delayed while the individual provided proof that they had in fact filed a tax return. Figure 10 shows the results of our analysis of the number of calendar days between return filing and the erroneous notification the IRS sent to the Exchanges for the 87,271 taxpayers.

Figure 10: Analysis of Calendar Days Between Filing a Return and IRS Erroneous Notification to the Exchange

Days Between Filing of the Tax Return and Erroneous Notification Sent to Exchange	Individuals	Percentage[32]
Individuals With a Tax Year 2014 Return	**87,271**	**100%**
Return Filed 1 to 5 Days Before Notification	*9,269*	*11%*
Return Filed 6 to 10 Days Before Notification	*10,069*	*12%*
Return Filed 11 to 20 Days Before Notification	*28,652*	*33%*
Return Filed 21 to 30 Days Before Notification	*18,692*	*21%*
Return Filed 31 to 45 Days Before Notification	*12,118*	*14%*
Return Filed 46 to 60 Days Before Notification	*4,522*	*5%*
Return Filed More Than 60 Days Before Notification	*3,949*	*5%*

Source: TIGTA analysis of Income and Family Size Verification Code 007 returned to the Exchanges during the 2016 enrollment period.

The ACA requires individuals to file a tax return and reconcile their APTC. The IRS developed an external response code (Code 007 – required return not filed reconciling the APTC received for prior calendar year) that it sends to an Exchange when the Exchange requests tax return information for an individual during an open enrollment period. The Exchanges are required to verify an individual's eligibility for the APTC by attempting to verify anticipated income and

[32] Percentages shown do not total 100 percent due to rounding.

other factors. The Exchanges obtain tax information from the IRS for this purpose. For example, when an Exchange requested tax information for the 2016 insurance renewal period for an individual who received the APTC in Calendar Year 2014 but had not yet filed his or her Tax Year 2014 tax return, the IRS would return a Code 007 to indicate that the individual has not yet filed a tax return. The Exchanges were to use this information when determining if an individual remains eligible to receive the APTC in Calendar Year 2016.

The most current filing data are not being used to identify individuals who received the APTC and did not file a tax return as required

For the majority of the 87,271 taxpayers, the erroneous notification resulted from the IRS not using the most current tax return filing data it maintains to verify filings prior to sending Code 007 to an Exchange. In March 2016,[33] we recommended that the Chief Technology Officer in conjunction with the Director, Affordable Care Act Office, modify the Income and Family Size Verification processes to use the most current data available when determining if a taxpayer reconciled the APTCs received in the prior calendar year. The IRS agreed with this recommendation. However, the IRS stated that the implementation of required programming changes was subject to budgetary constraints, limited resources, and competing priorities. Therefore, the IRS did not provide an implementation date.

In April 2016, we provided the IRS with a list of the individuals we identified for its review and concurrence that the codes were erroneous. IRS management informed us that:

- 83,321 erroneous codes resulted from delays in the IRS not timely loading tax return filing data for use in responding to the Exchanges and the IRS not performing more frequent updates of tax return data.
- 3,950 erroneous codes resulted from programming errors in the Coverage Data Repository[34] and/or the Integrated Production Model[35] or other data anomalies for which the IRS was working to determine the cause. IRS management informed us that they identified the cause of some of the Coverage Data Repository and Integrated Production Model issues and submitted a request to correct programming errors.

IRS management informed us that to timely respond to Exchange requests for tax information during the 2017 Exchange enrollment period, the IRS had to compile its nonfiler information as of September 10, 2016. This information was available to the Exchanges as of September 25, 2016. According to the IRS, it plans to update the nonfiler data used to respond to the

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[33] TIGTA, Ref. No. 2016-43-033, *Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season* (Mar. 2016).
[34] The IRS's main data repository for ACA initiatives, and the IRS uses the data contained in it to respond to requests from the Exchanges. The IRS relies on the most recent tax return information maintained in the Coverage Data Repository for the applicant and the applicants listed family members to respond to the Exchanges' requests.
[35] A data store used to meet IRS needs for data analytics and long-term reporting and as a source for other types of analytic data that supplement the transactional core data store.

Exchanges monthly. These updates will represent tax returns filed as of approximately the 10th of the month and will generally be available to the Exchanges on the fourth Sunday of the month. IRS management did note that they were considering weekly data updates rather than monthly updates. However, the IRS stated that the implementation of required programming changes was subject to budgetary constraints, limited resources, and competing priorities.

It should be noted that even with weekly data updates, we are concerned that the IRS will continue to send erroneous notifications to the Exchanges unless it improves the timeliness of loading the data into its systems and performing the required analysis. For example, our review found that it took at least 24 calendar days and as long as 44 calendar days for the IRS to load the data into its systems and perform the required analysis. The IRS should re-evaluate its decision to delay implementing the necessary programming and further consider the effect an erroneous code can have on a taxpayer.

The IRS delayed providing TIGTA with Code 007 data that could have allowed earlier detection and correction of the erroneous codes sent to the Exchanges

On October 19, 2015, TIGTA formally requested that the IRS provide data on an ongoing basis that identifies individuals for whom the IRS sends a Code 007 to an Exchange during the 2016 open enrollment period. We requested weekly extracts containing the Social Security Number and the response transmission date beginning October 26, 2015, and continuing through January 31, 2016. These extracts would allow us to review the IRS's processes as they were occurring. This would enable us to provide real-time information to the IRS regarding any concerns we identified so that the IRS could take immediate action to reduce the impact on taxpayers.

The IRS attempted to provide us data on December 4, 2015. However, the data were not in the correct format. In fact, the IRS provided us the data in a format that the IRS knew TIGTA could not use. As a result, the IRS had to reprogram our request to extract the data in a usable format thus further delaying the receipt of the requested data. The IRS indicated that it was unable to dedicate resources to provide the data in a useable format at the time of our request because of competing priorities such as preparations for the upcoming filing season, year-end computer system close-outs, and the Income and Family Size Verification open enrollment. Once resources were available, the IRS estimated it would take approximately two weeks to extract the data we requested in a useable format. The IRS finally provided the requested data on February 9, 2016. This was after the conclusion of the Exchange health insurance open enrollment season, which prevented us from timely providing information to the IRS that could have increased the quality of the process.

The IRS agreed that because of the delay in receiving the requested data, TIGTA would not be able to timely share information with the IRS as to the accuracy of the Income and Family Size Verification Code 007 process.

Recommendation

Recommendation 5: The Chief Technology Officer, in conjunction with the Director, Affordable Care Act Office, should ensure that programming changes are made to use the most current data available at the time a request is received from an Exchange when determining if a taxpayer has reconciled the APTCs received in the prior calendar year.

> ***Management's Response:*** The IRS agreed with this recommendation. The IRS requested computer programming changes in April 2016 to facilitate this change. The Information Technology function and the ACA Program Management Office have been collaborating to determine feasibility, budgetary constraints, and the timeline for making the necessary changes to refresh data on a weekly basis.
>
> ***Office of Audit Comment:*** Although the IRS cites that programming changes were requested in April 2016, the programming error still exists. Due to the lack of timely action to address this issue, it is likely that the IRS continued to send erroneous notices informing the Exchanges that taxpayers had not reconciled previous APTC received during the 2017 enrollment period. This could result in denial of the APTC or a delay in the receipt of APTC payments while individuals provided proof that they had in fact filed a tax return.

Improvements Are Needed for Nonfiler Outreach Efforts

As of July 1, 2016, the IRS reported that approximately 1 million (14 percent) of the 7.4 million individuals who received the APTC in Calendar Year 2015 had not filed their required Tax Year 2015 tax return or filed a Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*. These individuals, hereafter referred to as nonfilers, received more than $3.1 billion in the APTC. In comparison, on July 17, 2015, the IRS reported that 710,000 (16 percent) of the 4.5 million individuals who received the APTC from an Exchange in Calendar Year 2014 had not filed a Tax Year 2014 tax return or an extension of time to file.

For the Tax Year 2014 nonfilers, the IRS issued notices between July 10, 2015, and August 21, 2015, to nonfilers and extension filers encouraging them to file a tax return and reconcile their APTCs as soon as possible. These notices also explained that not filing a tax return could affect their eligibility to receive the APTC the next year. In comparison, for Tax Year 2015, the IRS did not start mailing notices until August 25, 2016. According to the IRS, it has issued 441,131 notices (Letter 5858) to the more than 1 million APTC recipients who did not file a tax return or extension to file as of September 13, 2016.

As of September 22, 2016, the IRS has also issued 230,637 notices (Letter 5862) to the 514,000 individuals who had requested an extension to file. The letters inform the individuals that filing an electronic return within 30 calendar days of receiving the letter will greatly reduce their risk of an interruption in the APTC for the 2017 coverage year. IRS management also indicated that the IRS did not issue notices to approximately 608,000 of the more than 1 million nonfilers and approximately 283,000 of the 514,000 individuals who filed an extension to file, as these individuals received the APTC in the prior year and may have already received a similar notice.

The IRS's late mailing of nonfiler notices decreases the effectiveness of these notices. For example, for those nonfilers seeking to continue to enroll in health coverage, individuals need to receive the notice with ample time to file a tax return before the IRS begins providing tax information to the Exchanges for the upcoming enrollment period. Even if these individuals follow the IRS's advice and file a return within 30 calendar days of receiving the notice, it is unlikely that many of the tax returns would be included in the data used to respond to the Exchange requests. For example: [36]

> *The IRS mails a nonfiler notice to Taxpayer A on September 13, 2016. Taxpayer A files a tax return within 30 calendar days, on October 12, 2016. However, the IRS already compiled the information it will use to respond to the Exchange request for tax information on September 10, 2016. The Exchange requests tax information for re-enrollment of Taxpayer A on October 15, 2016. Because Taxpayer A did not file a return until after September 10, 2016, the IRS will notify the Exchange that a return has not been filed.*

Because the most current tax data were not used, resources will be wasted sending erroneous nonfiler notification letters to individuals who did file a tax return

In March of 2016,[37] we reported that the IRS does not use the most current tax data to identify nonfilers to whom it issued notices. For the 2015 Filing Season, the IRS identified nonfilers using only those tax returns that had completed processing rather than using available data showing a tax return as received and being processed. For example, our analysis of 703,934 Tax Year 2014 nonfilers identified by the IRS found that 17,761 (3 percent) had in fact filed a tax return or extension and were sent an erroneous notice. When we brought this to IRS management's attention, they agreed with our findings and explained that they were under time constraints to get notices to as many taxpayers as possible to minimize any effect to the taxpayers who do not reconcile their APTCs.

We repeatedly requested information from the IRS as to its plans to identify and assist individuals who did not file a Tax Year 2015 tax return to reconcile their APTC. However, we did not receive any details until August 31, 2016. Once received, the IRS indicated that it would continue to identify nonfilers during the 2016 Filing Season using only those tax returns that had completed processing rather than using data showing a tax return as received and being

[36] The example provided is hypothetical.
[37] TIGTA, Ref. No. 2016-43-033, *Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season* (Mar. 2016).

processed. As a result, the IRS will continue to needlessly waste resources erroneously sending nonfiler notices to individuals who in fact filed a tax return or requested an extension. In addition, the erroneous notices could cause taxpayer burden should the taxpayer contact the IRS to inquire as to why they are receiving a notice informing them they had not filed a tax return when they had filed one. In the current environment of reduced funding, it is important that the IRS develop processes to use available data efficiently.

Based on our analysis of the accuracy rate of nonfiler notices mailed during the 2015 Filing Season, we estimate the IRS will send 13,234 letters to individuals who have either filed a tax return or requested an extension before the letter was issued. According to the IRS, it costs $0.58 to mail a notice. As such, we estimate the IRS could potentially save $7,676 in mailing costs associated with PTC nonfiler notices erroneously sent to taxpayers who have already filed a tax return or requested an extension of time to file.

Recommendation

Recommendation 6: The Commissioner, Wage and Investment Division, should modify nonfiler identification processes to use the most current data available at the time notices are sent to ensure that resources are not wasted alerting individuals of nonfiling when in fact a return or request for an extension has been received.

> ***Management's Response:*** The IRS agreed with this recommendation. In the future, the IRS will compare the list of Taxpayer Identification Numbers derived from a comparison of the Form 1095-A filings to lists of tax returns suspended in the Submission Processing Error Resolution System to eliminate any returns that have been received but not yet processed. This action will only take place if there are mailings of additional letters to APTC recipients who are nonfilers.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the effectiveness of the IRS's verification of PTC claims during the 2016 Filing Season as a follow-up to our prior review of the IRS's verification of PTC claims during the 2015 Filing Season. To accomplish our objective, we:

I. Determined if the Exchanges timely submitted required EPD/Form 1095-A, *Health Insurance Marketplace Statement*, data and ensured that the IRS did not experience any significant delays in loading the data for use.

   A. Monitored the EPD submissions reports to ensure that all Exchanges were timely submitting the EPD.

   B. Monitored the Form 1095-A submissions reports to ensure that all Exchanges were timely submitting Form 1095-A data.

II. Determined if the IRS was accurately processing PTC-related returns during the 2016 Filing Season including ensuring that programming changes made as a result of our report on the PTC for the 2015 Filing Season were effective.

   A. Determined the number of PTC claims received during the 2016 Filing Season.

   B. Independently developed a computer program to compute the PTC and reconcile any APTC payments received, and compared our calculation to the IRS's calculations.

      1. Obtained EPD, Form 1095-A data, and weekly cycle[1] extracts of Tax Year 2015 tax returns processed between Cycles 4 and 18.

         a. Obtained EPD files as of January 9, 2016, February 7, 2016, February 28, 2016, and April 3, 2016. We performed analysis on limited fields that would be used in our calculation from the January 9, 2016 files. We determined that the data were sufficiently reliable for our intended purposes.

[1] The IRS method of documenting dates, *e.g.*, cycle 201602 is the second week of January 2016.

b. Obtained Form 1095-A data files from the Information Returns Database[2] as of April 3, 2016. We performed analysis on limited fields that would be used in our analysis. We validated the reliability of the data by selecting a judgmental sample[3] and ensuring the data were supported by data contained in the IRS's Integrated Data Retrieval System.[4] We determined that the data were sufficiently reliable for our intended purposes.

c. Obtained 5,040,159 returns from weekly cycle extracts of 2015 tax returns processed between Cycles 4 and 18 that either filed a Form 8962, reported a Net PTC or Excess APTC Repayment on Form 1040, *U.S. Individual Income Tax Return*, contained an ACA Resolution Code, or where the IRS obtained EPD amounts for the return.[5] We performed analysis on limited fields that would be used in our analysis. We validated the reliability of the data extracts by selecting a judgmental sample and ensuring that the tax return data fields were supported by data contained in the IRS's Integrated Data Retrieval System. We determined the data were sufficiently reliable for our intended purpose.

d. Obtained the IRS PTC-related Master File fields for Cycles 4 through 18. We validated the reliability of the fields extracted by selecting a judgmental sample and ensuring that the data fields matched the source system using the IRS's Integrated Data Retrieval System. We determined the data were sufficiently reliable for our intended purposes.

2. Computed the allowable PTC, additional PTC, or APTC repayment amount using the TIGTA-developed computer program and matched our computations to the IRS's computations.

3. Obtained 11,448 tax returns that have complex calculations such as the ACM, which were not built into TIGTA's independently developed calculation and selected a judgmental sample of 20 tax returns to manually compute and verify the accuracy of the tax returns. We relied on a judgmental sample in order to

[2] The Information Returns Database contains ACA information returns received through the ACA Information Returns system. The ACA Information Returns system receives Forms 1095-A; 1095-B, *Health Coverage*; 1095-C, *Employer-Provided Health Insurance Offer and Coverage*; 1094-B, *Transmittal of Health Coverage Information Returns*; and 1094-C, *Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns*, submitted by Health Insurance Marketplaces, insurance companies, and employers.

[3] A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

[4] An IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

[5] We obtained 5,135,381 tax returns for Cycles 4 through 18. We excluded 6,547 tax returns from our analysis because they were processed after May 1, 2016. We also excluded 6,902 returns because there were duplicate or amended returns filed for a single Social Security Number and 81,773 returns because the taxpayer claimed a SPA or an ACM.

ensure that we reviewed tax returns with positive and negative potential risk to the IRS. Also, we systemically checked the entire population to ensure that error screening was functioning properly.

4. Reviewed 4,013 tax returns processed between January 19, 2016, and February 7, 2016, that had complex calculations such as the SPA, which were not built into TIGTA's independently developed calculation to verify the accuracy of these tax returns.

5. Reviewed exception cases (where TIGTA and IRS calculations did not match) and worked with the IRS to determine the cause of the mismatches. We found that causes of exception cases previously identified in the 2015 Filing Season did not appear to be part of exception cases identified in the 2016 Filing Season.

6. Quantified the impact of exception cases identified in the 2016 Filing Season to determine if the taxpayer received more or less PTC than entitled.

B. Continued reviewing and working with the IRS to determine a cause for the remaining exception cases identified in the 2015 Filing Season for which a cause was not previously identified.

C. Assessed the accuracy of the IRS Income and Family Size verification response code sent by the IRS to the Exchanges indicating that an individual did not file a Tax Year 2014 tax return and reconcile any APTC received in Calendar Year 2014.

III. Determined if the IRS was accurately identifying taxpayers who received the APTC and did not reconcile their APTC. This included checking for taxpayers who received the APTC and filed a tax return but did not attach the Form 8962 reconciling the APTC as well as taxpayers that did not file a tax return at all.

A. Ensured that tax returns that did not report the PTC/APTC were identified properly by the IRS during processing.

B. Requested the IRS's plans regarding Calendar Year 2015 APTC recipients who had not filed a tax return or extension to file during the 2016 Filing Season.

IV. Determined if the IRS made changes to at-filing error screening and identification processes, *i.e.*, error codes and tolerances, for the 2016 Filing Season and ensured that the changes were appropriate and were working effectively.

A. Reviewed the Internal Revenue Manual sections specific to the PTC and the Error Resolution function to determine if there were new PTC-related error codes for the 2016 Filing Season and if any significant changes were made to error codes that were in place for the 2015 Filing Season.

B. Determined the number of PTC claims identified by the Error Resolution System (by error code) during the 2016 Filing Season and compared to the 2015 Filing Season.

C. Requested tolerances for each PTC-related error code from the IRS for the 2016 Filing Season and compared to the 2015 Filing Season.

V. Based upon work performed by TIGTA's Applied Research and Technology team, determined the accuracy of the EPD in comparison to the Form 1095-A data.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRS's policies and procedures for obtaining and using the EPD provided by the Exchanges and the IRS's policies and procedures for monitoring and validating the accuracy of APTC reconciliations and PTC claims at filing. We evaluated these controls by interviewing IRS management, reviewing key system documentation related to the verification and processing of APTC reconciliations and PTC claims at filing, and performing an independent calculation of the PTCs that taxpayers were entitled to receive.

Appendix II

Major Contributors to This Report

Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services)
Deann L. Baiza, Director
Sharla J. Robinson, Audit Manager
Jeffrey D. Cullum, Lead Auditor
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Tracy M. Hernandez, Senior Auditor
Kimberly A. Holloway, Auditor
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Appendix III

Report Distribution List

Commissioner
Office of Commissioner – Attn: Chief of Staff
Deputy Commissioner for Operations Support
Deputy Commissioner for Services and Enforcement
Chief Technology Officer
Associate Chief Information Officer, Affordable Care Act (PMO)
Director, Affordable Care Act Office
Director, Customer Account Services, Wage and Investment Division
Director, Filing and Premium Tax Credit Strategy, Affordable Care Act Office
Director, Office of Legislative Affairs
Director, Program Management Office, Affordable Care Act Office
Director, Submission Processing, Wage and Investment Division
Director, Office of Audit Coordination

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Cost Savings, Funds Put to Better Use – Potential; 80,005 taxpayers receiving $128,653,837 more in the PTC than they were entitled to receive as a result of programming errors/dollar tolerances and the IRS not identifying potentially erroneous PTC claims during processing for further review (see page 15).

Methodology Used to Measure the Reported Benefit:

We obtained Tax Year 2015 tax returns filed between January 19, 2016, and May 1, 2016, which had indications of the PTC. We independently developed a calculation to compute allowable PTCs and the amount of the APTC required to be repaid, and compared these figures to the IRS's calculations. Our analysis of more than 4.9 million tax returns found that the IRS accurately determined the amount of allowable PTC on more than 4.7 million (97 percent) returns. For the remaining 154,744 (3 percent) returns, we determined the following:

- 123,251 tax returns – the IRS did not identify the claim as potentially erroneous as the discrepancy between the amount reported by the taxpayer and the amount reported in the EPD was below the dollar tolerance for which the IRS will review a claim. Our analysis of these cases identified that the use of a dollar tolerance is resulting in the IRS not verifying high-risk PTC claims. The 123,251 returns include:
    - 123,084 tax returns for which there was no EPD for the taxpayer. Our additional analysis identified that the IRS received a Form 1095-A, *Health Insurance Marketplace Statement*, for 59,621 (48 percent) of the 123,084 tax returns confirming the individual enrolled in an Exchange. For the remaining 63,463 (52 percent) returns, the IRS had no EPD or Form 1095-A. These returns received the PTC totaling $123,390,660.
    - 167 tax returns for which a blank Form 8962 was included with the tax return. Even though the Form 8962, *Premium Tax Credit (PTC)*, was blank, the IRS treats the tax return the same as if the Form 8962 included actual amounts. The IRS performed no review of these claims as the PTC discrepancies were below the IRS dollar tolerance for selection. Had the IRS treated these taxpayers the same as taxpayers who did not

file a Form 8962, the IRS would have identified these 167 returns for additional review. As a result, these taxpayers received $87,580 more in the PTC than they were entitled to receive. All of the $87,580 in the PTC was received by the taxpayer in advance of filing.

- 31,493 tax returns – programming errors caused the IRS to incorrectly compute the allowable PTC amount. As a result, 16,375 taxpayers potentially received approximately $5,175,597 million more in the PTC than they were entitled to receive.

We computed our outcome measure as follows:

- Total taxpayers: 63,463 + 167 + 16,375 = 80,005
- Total dollars: $123,390,660 + $87,580 + $5,175,597 = $128,653,837

Type and Value of Outcome Measure:

- Cost Savings, Funds Put to Better Use – Potential; $7,676 in mailing costs to mail erroneous nonfiler notices to 13,234 individuals as a result of the IRS not using the most current tax return data to identify PTC nonfilers (see page 25).

Methodology Used to Measure the Reported Benefit:

In March of 2016,[1] we reported that the IRS also does not use the most current tax data to identify nonfilers to whom it issued notices. For the 2015 Filing Season, the IRS identified nonfilers using only those tax returns that had completed processing rather than using available data showing a tax return as received and being processed. For example, our analysis of 703,934 Tax Year 2014 nonfilers identified by the IRS found that 17,761 (3 percent) had in fact filed a tax return or extension and were sent an erroneous notice. When we brought this to IRS management's attention, they agreed with our findings and explained that they were under time constraints to get notices to as many taxpayers as possible to minimize any effect to the taxpayers who do not reconcile their APTCs.

On August 31, 2016, the IRS informed us that it would continue to identify nonfilers during the 2016 Filing Season using only those tax returns that had completed processing rather than using data showing that a tax return as received and being processed. As a result, the IRS will continue to needlessly waste resources erroneously sending nonfiler notices to individuals who have in fact filed a tax return or requested an extension.

According to the IRS, as of September 13, 2016, it has issued 441,131 notices (Letter 5858) to more than 1 million APTC recipients who did not file a tax return or extension to file. Using the percentage of notices we identified as being issued in error during the 2015 Filing Season, we

[1] TIGTA, Ref. No. 2016-43-033, *Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season* (Mar. 2016).

estimate the IRS will send 13,234 letters to individuals who have either filed a tax return or requested an extension before the letter was issued.

> 441,131 letters issued to individuals the IRS identified as not having filed a return or requesting an extension x 3 percent = 13,234 individuals who potentially erroneously received a nonfiler notice.

According to the IRS, it costs $0.58 to mail a notice to a taxpayer. As such, we estimate the IRS could potentially save $7,676 in mailing costs associated with PTC nonfiler notices erroneously sent to taxpayers who have already filed a tax return or requested an extension of time to file.

> 13,234 x $0.58 = $7,676 in potentially unnecessary mailing costs.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 15,118 taxpayers receiving $6,668,090 less in the PTC than they were entitled to receive as a result of programming errors and the IRS not identifying potentially erroneous PTC claims during processing for further review (see page 15).

Methodology Used to Measure the Reported Benefit:

We obtained Tax Year 2015 tax returns filed between January 19, 2016, and May 1, 2016, which had indications of the PTC. We independently developed a calculation to compute allowable PTCs and the amount of the APTC required to be repaid and compared these figures to the IRS's calculations. Our analysis of more than 4.9 million tax returns found that the IRS accurately determined the amount of allowable PTC on more than 4.7 million (97 percent) returns. For the remaining 154,770 returns (3 percent), we determined the following:

- 31,493 tax returns – programming errors caused the IRS to incorrectly compute the allowable PTC amount. As a result, 15,118 taxpayers potentially received $6,668,090 less in the PTC than they were entitled to receive.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 147 taxpayers having to resolve their accounts with the IRS. (see page 18).

Methodology Used to Measure the Reported Benefit:

Our review of 4,013 tax returns processed between January 19, 2016, and February 7, 2016, involving a SPA identified that programming errors resulted in the IRS incorrectly allocating the APTC for 147 returns. To determine if the IRS correctly allocated the APTC, we compared the monthly APTC amounts computed by the IRS for the allocation period to the monthly APTC amounts in the EPD. When these amounts were the same, we concluded that IRS did not allocate the APTC as requested by the taxpayer, *i.e.*, the APTC associated with the filer should not be the entire amount but rather the allocated percentage listed on the tax return. For the 147 tax returns, we identified the taxpayer claimed an allocation percent other than 100 percent and did not properly allocate the APTC. For these tax returns, we were unable to compute a dollar impact. However, the allocation programming error can potentially result in the taxpayers having to resolve their accounts with the IRS.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 13,234 individuals who received a potentially erroneous PTC nonfiler notice as a result of the IRS not using the most current tax return data to identify PTC nonfilers (see page 25).

Methodology Used to Measure the Reported Benefit:

In March of 2016,[2] we reported that the IRS also does not use the most current tax data to identify nonfilers to whom it issued notices. For the 2015 Filing Season, the IRS identified nonfilers using only those tax returns that had completed processing rather than using available data showing a tax return as received and being processed. For example, our analysis of 703,934 Tax Year 2014 nonfilers identified by the IRS found that 17,761 (3 percent) had in fact filed a tax return or extension and were sent an erroneous notice. When we brought this to IRS management's attention, they agreed with our findings and explained that they were under time constraints to get notices to as many taxpayers as possible to minimize any effect to the taxpayers who do not reconcile their APTCs.

On August 31, 2016, the IRS informed us that it would continue to identify nonfilers during the 2016 Filing Season using only those tax returns that had completed processing rather than using data showing that a tax return as received and being processed. As a result, the IRS will continue to needlessly waste resources erroneously sending nonfiler notices to individuals who have in fact filed a tax return or requested an extension.

According to the IRS, as of September 13, 2016, it has issued 441,131 notices (Letter 5858) to more than 1 million APTC recipients who did not file a tax return or extension to file. Using the percentage of notices we identified as being issued in error during the 2015 Filing Season, we estimate the IRS will send 13,234 letters to individuals who have either filed a tax return or requested an extension before the letter was issued.

> 441,131 letters issued to individuals the IRS identified as not having filed a return or requesting an extension x 3 percent = 13,234 individuals who potentially erroneously received a nonfiler notice.

[2] TIGTA, Ref. No. 2016-43-033, *Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season* (Mar. 2016).

Appendix V

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

FEB 0 6 2017

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Affordable Care Act: Verification of Premium Tax Credit Claims During the 2016 Filing Season (Audit #201640309)

Thank you for the opportunity to review the subject draft report and provide comments. We appreciate the acknowledgement of our successful efforts in processing and verifying the Premium Tax Credit (PTC) claims during the 2016 Filing Season. As you mentioned in the report, through June 30, 2016, the IRS processed more than 5.2 million tax returns in which taxpayers received approximately $20.3 billion in PTC, either as an advanced payment or claimed at the time of filing. In Fiscal Year 2016, more than $28.3 billion in Advance Premium Tax Credit (APTC) was paid to insurers on behalf of taxpayers enrolled in health insurance plans offered by the Exchanges. Of approximately 4.9 million tax returns processed by the IRS as of May 1, 2016, the IRS accurately determined the amount of allowable PTC on more than 4.7 million (97 percent) returns.

We agree with four of the six recommendations contained in the report. The IRS began working with the Federal Exchange and State Exchanges in January 2014 to help them meet their reporting requirements and ensure their data submissions were accurate and complete. We have continued working closely with the Exchange entities and meeting regularly to discuss both general and detailed issues, error trends, opportunities for improvements in data reliability and accuracy, individual Exchange issues, and a host of other aspects that affect the integrity of the marketplace reporting. This is a regular and ongoing part of our process, and we agree with the recommendation to continue doing so. We also agree with the recommendation for improving our ability to identify tax returns submitted with blank Forms 8962, *Premium Tax Credit (PTC)*, when APTC was received. Procedural updates are expected to be in place for the upcoming filing season.

In the Treasury Inspector General for Tax Administration's previous report on the verification of PTC claims during the 2015 filing season[1], we agreed with the recommendation to modify the Income and Family Size Verification processes to use the most current data available at the time a request is received from an Exchange, when determining if a taxpayer reconciled APTC received in the prior calendar year. We continue to agree that this system modification is needed and have been working toward its implementation; however, because we are already tracking this action in our internal management controls system, we will not be establishing a second control for the recommendation made in this report. We also agree with the recommendation to modify the nonfiler identification processes to use more current information when sending notices to alert individuals that they did not reconcile APTC. We have also updated the selection methodology for this notification process.

We do not agree with the recommendation to revise the systemic PTC verification processes to include Form 1095-A, *Health Insurance Marketplace Statement* data. With monthly reporting, full-year Exchange Periodic Data (EPD) is available for use at the beginning of the filing season where, in contrast, Form 1095-A is not required to be filed with the IRS until January 31 and, generally, would not be available for use by the systemic verification process until late February or early March. We believe the benefit of eventually having the data available systemically would not justify the cost and complexity of the requisite programming and would not provide a significantly greater benefit than our current process that uses the Form 1095-A data as a secondary source of information.

With severe budgetary constraints and limited resources available to fulfill our mission of tax administration and serving taxpayers, the IRS must make hard decisions on effectively allocating resources to meet workload demands. One such decision is determining the amount of risk that may be accepted when determining the volume of workload our return correction and compliance functions can address. Annually, the IRS evaluates available resources and projected receipts to determine tolerance levels that distinguish items that must be addressed versus discretionary work. Consequently, we do not agree to the recommendation that IRS correspond with all taxpayers who claim PTC for which no EPD or Form 1095-A data exists. In 2016, we were able to eliminate some PTC tolerances and significantly reduce others from 2015 levels. We will continue to adjust tolerance levels as each year's circumstances dictate.

[1] TIGTA, Ref. No. 2016-43-033, *Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season* (Mar. 2016).

3

Attached are our comments and proposed actions to your recommendations. If you have any questions, please contact me, or a member of your staff may contact James P. Clifford, Acting Director, Customer Account Services, Wage and Investment Division, at (470) 639-3504.

Attachment

Attachment

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should continue to work with the CMS to ensure that the Federal Exchange and all State Exchanges submit required EPD and Form 1095-A data to the IRS by the established due dates.

CORRECTIVE ACTION

IRS agrees to this recommendation. In January 2014, the IRS began working with the Exchange entities to help facilitate improved data quality and timely reporting. We will continue to have ongoing meetings with each Exchange to provide both broad support and targeted subject-matter expertise to help them meet the reporting requirements. Regular interactions to facilitate data quality improvements include IRS-hosted meetings to discuss top error trends, weekly or ad hoc calls with Exchanges to discuss state-specific issues, tracking Exchange submissions and notifying individual Exchanges when submissions are late or incomplete. The Affordable Care Act Program Management Office (ACA PMO) is the IRS liaison with the Centers for Medicare & Medicaid Services (CMS). The ACA PMO will continue to work closely with the Wage and Investment Division when engaging with the CMS on marketplace reporting.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Affordable Care Act Program Management Office

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

The Commissioner, Wage and Investment Division, should revise systemic PTC verification processes to include Form 1095-A data.

CORRECTIVE ACTION

We do not agree. The Exchange Periodic Data (EPD) data is designed to be available for use prior to the start of the filing season while Form 1095-A, *Health Insurance Marketplace Statement* data is not due until January 31 and would likely not be available for use in at-filing Premium Tax Credit (PTC) processing until late February or early March. We believe the benefit of eventually having the data available systemically would not justify the cost and complexity of the requisite programming and would not provide a significantly greater benefit than our current process that uses the Form 1095-A data as a secondary source of information. In addition, systemic verifications using Form 1095-A data during processing will pose programming complexity which could negatively impact timely processing of tax returns that include the Premium Tax Credit.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 3
Establish processes to correspond with all taxpayers who file a tax return claiming the PTC for which the IRS has no EPD and Form 1095-A data regardless of the dollar amount of the claim.

CORRECTIVE ACTION
The IRS has processes in place for corresponding with taxpayers when the PTC is claimed and there is no corresponding EPD or Form 1095-A data available. The issue is one of balancing constrained resources with projected workload demand, and determining the level of risk at which a discrepancy can be most effectively addressed. Each year, the IRS evaluates tolerance and threshold levels to maximize the use of our limited resources. Since tolerances and thresholds are a function of budgetary resources, we cannot guarantee adequate funding will be available and do not agree to implement the recommendation to correspond in all cases where claimed PTC is not supported by EPD or Form 1095-A data.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 4
Update verification processes to identify taxpayers who receive the APTC and submit a blank Form 8962 for additional review.

CORRECTIVE ACTION
We agree with this recommendation and will update Form 8962, *Premium Tax Credit (PTC)*, processing instructions to reinforce the use of existing procedures when blank forms are encountered.

IMPLEMENTATION DATE
February 15, 2017

RESPONSIBLE OFFICIAL
Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.

Recommendation

RECOMMENDATION 5
The Chief Technology Officer, in conjunction with the Director, Affordable Care Act Office, ensure that programming changes are made to use the most current data available at the time a request is received from an Exchange when determining if a taxpayer has reconciled the APTCs received in the prior calendar year.

CORRECTIVE ACTION
We agree with this recommendation and efforts are underway. The Information Technology (IT) function and the ACA PMO have been collaborating on necessary programming changes to refresh data on a weekly basis, as opposed to the current monthly refresh schedule. A systems change request was submitted by the ACA PMO in April 2016 to facilitate this change. Conversations are ongoing between IT and the ACA PMO to determine feasibility, budgetary constraints, and timeline for making the necessary changes. The IRS agreed to pursue the requisite programming changes in our response to the Tax Inspector General for Tax Administration's previous report[2]. We are already tracking that action in our internal management control system and will not establish a duplicate action for the same effort.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

[2] TIGTA, Ref. No. 2016-43-033, *Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season* (Mar. 2016).

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 6
The Commissioner, Wage and Investment Division, should modify nonfiler identification processes to use the most current data available at the time notices are sent to ensure that resources are not wasted alerting individuals of nonfiling when in fact a return or request for an extension has been received.

CORRECTIVE ACTION
We agree with this recommendation. In the future, if letters are issued to APTC recipients that are non-filers, we will compare the list of Taxpayer Identification Numbers derived from a comparison of the Form 1095-A filings to listings of tax returns suspended in the Submission Processing Error Resolution System to eliminate any returns that have been received, but not yet processed. This action will be effective if there are mailings of additional letters to Advanced Premium Tax Credit recipients that are non-filers. Because this action is based on a contingency, we cannot provide an implementation date.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A