Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season

March 31, 2016

Reference Number: 2016-43-033

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HIGHLIGHTS

AFFORDABLE CARE ACT: INTERNAL REVENUE SERVICE VERIFICATION OF PREMIUM TAX CREDIT CLAIMS DURING THE 2015 FILING SEASON

Highlights

Final Report issued on March 31, 2016

Highlights of Reference Number: 2016-43-033 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. Individuals can receive the PTC in advance or can claim the PTC on their tax return. 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, almost $11 billion in Advance PTCs (APTC) was paid to insurers in Fiscal Year 2014.

WHY TIGTA DID THE AUDIT

The House Committee on Appropriations requested that TIGTA evaluate the IRS processes to ensure that unauthorized payments or overpayments of the PTC are fully recouped. The objective of this review was to evaluate the effectiveness of the IRS's verification of PTC claims during the 2015 Filing Season.

WHAT TIGTA FOUND

As of June 11, 2015, the IRS processed more than 2.9 million tax returns involving the PTC, and taxpayers received approximately $9.8 billion in PTCs that was either received in advance or claimed at filing.

TIGTA's analysis of more than 2.6 million tax returns with a PTC claim that were filed between January 20, 2015, and May 28, 2015, for which the IRS had Exchange Periodic Data (EPD), found that the IRS accurately determined the allowable PTC on more than 2.4 million (93 percent) returns. TIGTA is continuing to work with the IRS to determine the cause for calculation differences in 150,385 of the remaining 182,884 tax returns. Computer programming errors resulted in an incorrect computation of the allowable PTC for 27,827 tax returns. For 4,672 tax returns, the IRS did not have authority to correct the PTC claim during processing.

In addition, Exchanges did not provide the EPD to the IRS prior to the start of the 2015 Filing Season, and IRS system problems prevented the IRS from being able to use the EPD received between January 20, 2015, and March 29, 2015. Without the required EPD, the IRS was unable to perform computer matches to verify filed claims or that individuals who received the APTC filed a tax return as required.

TIGTA verified that the IRS processes to identify potentially fraudulent PTC claims are operating as intended. In addition, the IRS corrected programming errors identified by TIGTA that resulted in tax returns not being identified for further review during processing.

Finally, the IRS sent letters to individuals who received the APTC but did not file a tax return to remind them of the requirement to reconcile APTCs. However, the IRS processes to identify these taxpayers did not use the most current tax filing data.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS review the 27,827 tax returns identified by TIGTA to ensure that these individuals receive the correct PTC. Also, the IRS should modify the Income and Family Size Verification processes to use the most current information available when determining if a taxpayer has reconciled APTCs received in the prior calendar year.

The IRS agreed with both of TIGTA's recommendations. The IRS stated that it will review the 27,827 tax returns to prioritize them against existing workload demands and resource constraints so that they may be addressed accordingly. In addition the IRS stated that implementation of agreed changes to the Income and Family Size Verification process are subject to budgetary constraints, limited resources, and competing priorities.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

March 31, 2016

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

Michael E. McKenney

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season (Audit #201540317)

This report presents the results of our review to evaluate the effectiveness of the Internal Revenue Service's (IRS) verification of Premium Tax Credit claims during the 2015 Filing Season. This audit was conducted in response to a June 2014 request from the House Committee on Appropriations. The Committee requested, among other things, that the Treasury Inspector General for Tax Administration evaluate the processes the IRS uses to ensure that unauthorized payments or overpayments of the Premium Tax Credit are fully recouped. This audit is 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 in 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 Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).

Table of Contents

Abbreviations

ACA	Affordable Care Act
APTC	Advance Premium Tax Credit
CMS	Centers for Medicare and Medicaid Services
e-file(d)	Electronically file(d)
EPD	Exchange Periodic Data
FPL	Federal Poverty Level
HHS	Department of Health and Human Services
IRS	Internal Revenue Service
OIG	Office of Inspector General
PTC	Premium Tax Credit
QHP	Qualified Health Plan
SLCSP	Second Lowest Cost Silver Plan
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. The ACA also created a new refundable tax credit,[2] the Premium Tax Credit (PTC), to assist eligible taxpayers with paying their health insurance premiums. The PTC helps to 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. 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 (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 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, in Calendar Year 2013, this equated to $23,550 to $94,200 for a family of four. 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 2014 health insurance enrollment period, the District of Columbia and 14 States operated their own Exchanges (hereafter referred to as State Exchanges), while the remaining 36 States partnered with the Federally Facilitated Exchange. Figure 2 shows the Federally Facilitated and State-Based Exchanges during Calendar Year 2014.

Figure 2: Federally Facilitated and State-Based Exchanges for Calendar Year 2014

Federally Facilitated Exchange[5]			State-Based Exchanges
Alabama	Louisiana	Ohio	California
Alaska	Maine	Oklahoma	Colorado
Arizona	Michigan	Pennsylvania	Connecticut
Arkansas	Mississippi	South Carolina	District of Columbia
Delaware	Missouri	South Dakota	Hawaii
Florida	Montana	Tennessee	Kentucky
Georgia	Nebraska	Texas	Maryland
Idaho	New Hampshire	Utah	Massachusetts
Illinois	New Jersey	Virginia	Minnesota
Indiana	New Mexico	West Virginia	Nevada
Iowa	North Carolina	Wisconsin	New York
Kansas	North Dakota	Wyoming	Oregon
			Rhode Island
			Vermont
			Washington

Source: The CMS as of September 30, 2014.

The Exchanges have sole responsibility for determining if an individual is eligible to purchase health insurance as well as determining the amount of the PTC that is paid in advance. 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. The Exchange can use the tax information

[5] Idaho and New Mexico were Supported State-Based Exchanges in Calendar Year 2014, and the eligibility and enrollment process was completed by the Federally Facilitated Exchange.

in conjunction with other income data to verify an individual's estimated income for the next calendar year. The Exchange uses this estimated income and family status to determine if an individual is eligible to receive an Advance PTC (APTC).

Once the Exchange determines the amount of the APTC an individual is entitled to receive, the individual then elects the actual amount to be sent to the individual's insurer on a monthly basis. Individuals can elect to send all, a portion, or none of the APTC to which they are entitled. Once an individual selects insurance coverage and determines the amount of the APTC to be sent 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[6] 2014 were nearly $11 billion ($15.5 billion in Calendar Year 2014).

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 income and family size reported on his or her tax return. Beginning in January 2015, taxpayers who purchased insurance through an Exchange during the Calendar Year 2014 health insurance enrollment period are required to file a tax return and attach Form 8962, *Premium Tax Credit (PTC)*, to claim the PTC and reconcile any APTC payments that were made to an insurer on their behalf. This reconciliation is necessary because the actual income and family size reported on their tax return can be different from the estimates used by the Exchange to determine the allowable 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 to must repay the excess when filing their tax return. The amount required to be repaid is subject to certain limitations because the ACA limits the amount of tax that individuals with income between 100 percent and 400 percent of the FPL will have to repay. However, individuals whose actual 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.

[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.

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 Section (§) 1.36B-4.

The ACA requires Exchanges to provide the IRS with enrollment data

The ACA requires Exchanges to provide the IRS with information regarding individuals who are enrolled by the Exchange on a monthly basis. These data are referred to as Exchange Periodic Data (EPD). In addition, the Exchange is also required to provide an annual summary to both the IRS and the individual detailing specific information relating to the individual's enrollment. This is referred to as Form 1095-A, *Health Insurance Marketplace Statement*. The data provided by Exchanges monthly and annually include:

- Individuals and families enrolled in a Qualified Health Plan (QHP) through the Exchange.
- Coverage start and end date of the QHP.
- The monthly premium amount of the QHP.
- Amount of the APTC paid for coverage under the QHP.
- Employer-offered Minimum Essential Coverage.

The House Committee on Appropriations requested an evaluation of the administration of the PTC

On June 17, 2014, the House Committee on Appropriations requested that the Department of Health and Human Services (HHS) Office of the Inspector General (OIG) and the Treasury Inspector General for Tax Administration (TIGTA) conduct an audit of the administration of the PTC. The Committee identified three primary areas on which it asked the Inspectors General to focus their audit coverage.

- How the Exchanges use IRS, self-reported, third-party, and other income data to determine eligibility for the PTC.

- The programmatic justification for and the accounting processes used to document, control, process, and report on PTC obligations.
- The processes the IRS and the CMS have to ensure that PTC payments are only made to eligible individuals and that unauthorized payments or overpayments of the PTC are fully recouped.

The Explanatory Statement to the Consolidated and Further Continuing Appropriations Act of 2015[7] requested that no later than June 1, 2015, the HHS OIG, in consultation with TIGTA, submit a report to Congress that assesses the IRS procedures to reconcile APTC amounts paid to individual taxpayers and how the HHS uses IRS information to reduce fraud and overpayments. On May 29, 2015, we issued an interim report on the IRS's efforts to verify PTC claims.[8] The interim report also included preliminary results from the HHS OIG on its review of the controls used by the Federal Exchange to ensure that individuals are eligible to enroll in a QHP and to receive assistance, including the APTC. As part of this review, the HHS OIG gathered information on how the CMS uses IRS information at the Federal Exchange in combination with information obtained from other sources to determine eligibility for the PTC.

The HHS OIG issued its final report on the internal controls at the Federal Exchange in August 2015.[9] In addition, the HHS OIG issued its assessment of controls at two State Exchanges in September[10] and October 2015.[11] The HHS OIG plans to issue reports during Fiscal Year 2016 on the controls at five other State Exchanges. In addition, the HHS OIG plans to summarize the results of its reviews of seven State Exchanges and describe the CMS's oversight and monitoring activities related to the State Exchanges. The HHS OIG will also examine inconsistencies at the Federal Exchange, which will include determining how many inconsistencies the Federal Exchange resolved, their characteristics, how they were resolved, and how long their resolution took.

This review was performed with information obtained from the 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 in Atlanta, Georgia. We also obtained information from the HHS OIG, the HHS CMS, and the California Exchange. This audit was conducted during the period

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[7] Pub. L. No. 113-235 (2014).
[8] TIGTA, Ref. No. 2015-43-057, *Affordable Care Act: Interim Results of the Internal Revenue Service Verification of Premium Tax Credit Claims* (May 2015).
[9] HHS OIG, A-09-14-01011, *Not All of the Federally Facilitated Marketplace's Internal Controls Were Effective in Ensuring That Individuals Were Properly Determined Eligible for Qualified Health Plans and Insurance Affordability Programs* (Aug. 2015).
[10] HHS OIG, A-02-14-02020, *Not All Internal Controls Implemented by the New York Marketplace Were Effective in Ensuring That Individuals Were Enrolled in Qualified Health Plans According to Federal Requirements* (Sept. 2015).
[11] HHS OIG, A-04-14-08036, *The Kentucky Marketplace's Internal Controls Were Generally Effective in Ensuring That Individuals Were Enrolled in Qualified Health Plans According to Federal Requirements* (Oct. 2015).

December 2014 through October 2015. 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 11, 2015, the IRS processed more than 2.9 million tax returns in which taxpayers received approximately $9.8 billion in PTCs that were either received in advance or claimed at the time of filing. Figure 4 presents PTC statistics as of June 11, 2015.

Figure 4: PTC Statistics as of June 11, 2015

Total Tax Returns With the PTC	**2,960,786**
Total PTC Amount (includes the APTC and the PTC)	$9.8 billion[12]
Total APTC Amount	*$9 billion*
Total PTC Claimed at Filing in Excess of the APTC	*$750.5 million*
Tax Returns for Which the PTC Equals the APTC Received	
Tax Returns	137,207
Total PTC Amount	$566.4 million
Tax Returns With Additional PTC – (taxpayer was entitled to more PTC than what was received in the APTC)	
Total Tax Returns	1,247,100
Total PTC Amount (includes the APTC and the PTC)	$4.9 billion
Total APTC Amount	*$4.1 billion*
Total PTC Claimed at Filing in Excess of the APTC	*$750.5 million*
Tax Returns With Excess APTC Payments – (taxpayer received more APTC than the PTC entitled and had to repay)	
Total Tax Returns	1,576,479
Total APTC Amount	$4.4 billion[13]
Total APTC Reported in Excess of the PTC	$1.9 billion
Total APTC Above the Repayment Limit (not repaid)	*$652.9 million*
Total APTC Below the Repayment Limit (repaid)	*$1.3 billion*

Source: TIGTA analysis of Individual Master File posted tax return information as of June 11, 2015 (Cycle 23). Totals shown are rounded.

[12] Subtotals do not equal the totals due to rounding.

[13] This number represents the amount of APTC paid by the Federal Government as of June 11, 2015. It includes the APTC equal to allowable PTC ($3,722,919,300) and the excess APTC that taxpayers are not required to repay ($652,898,340). We did not include the $1,275,067,850 in excess APTC that taxpayers must repay because once recovered it no longer represents a payment by the Federal Government.

Delays in Receiving Exchange Data Reduced the Internal Revenue Service's Ability to Efficiently Verify Premium Tax Credit Claims

The Exchanges did not provide the EPD to the IRS prior to the start of the 2015 Filing Season as required. In addition, IRS system issues prevented the IRS from being able to use most of the EPD received between January 20, 2015, and March 29, 2015. 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. In addition, the IRS cannot effectively and efficiently prevent erroneous PTC payments or ensure that the APTC paid in error is recovered. The IRS has to expend additional resources in an attempt to manually rather than systemically verify these claims. The IRS and Exchanges continued to work collaboratively throughout the 2015 Filing Season in an effort to provide the IRS with the data needed and to improve processes to help ensure that accurate EPD are submitted timely for use in future filing seasons.

Internal Revenue Code Section (§) 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). However, the CMS did not send the EPD for 1.7 million of the 4.2 million Federal Exchange enrollment records prior to the start of the filing season. The IRS did not receive these records from the CMS until February 2015, and the records were not used by the IRS until after March 28, 2015.

In addition, as of January 20, 2015 (the start of the filing season), six of the 15 State Exchanges[14] had not sent the IRS their required EPD.[15] As of June 25, 2015, the IRS received and was able to use EPD from all of the 15 State Exchanges. It should be noted that some States' EPD were not available until well after the April 15 return filing due date. Figure 5 provides a summary of when the EPD were available for the IRS to use to verify tax returns with PTC claims throughout the filing season.

[14] Fourteen State Exchanges and the District of Columbia. See Figure 2.
[15] Two of the six State Exchanges submitted no EPD. Four of the six State Exchanges attempted to submit EPD, but the IRS rejected all or part of the data.

Figure 5: IRS Use of Calendar Year 2014 EPD

	States Used	No EPD Provided by States or the IRS Unable to Use the EPD
Filing Season – January 1 through April 15		
January 20, 2015, through February 7, 2015	40[16]	11[17]
February 8, 2015, through March 28, 2015	42	9
March 29, 2015, through April 15, 2015	48	3
Post Filing Season		
May 3, 2015, through May 30, 2015	49	2
May 31, 2015, through June 27, 2015	50	1
June 28, 2015, and later	51[18]	

Source: IRS EPD Submissions Reports and EPD load information.

The IRS developed processes to verify PTC claims associated with Exchanges that did not provide the required EPD

Our analysis of tax returns filed between January 20, 2015, and May 28, 2015, identified 438,603 tax returns for which the IRS did not have EPD at the time the tax returns were processed or the EPD were incorrect.[19] The IRS did develop manual processes in an effort to verify PTC claims associated with Exchanges that did not provide the required EPD. However, these processes resulted in the IRS having to suspend tax returns during processing, which uses additional resources and increases the burden on taxpayers entitled to these claims.

The processes established include a combination of "at filing" data filters (*i.e.*, when tax returns are processed) to identify claims for manual verification and post processing compliance activities to address claims that cannot be verified using the EPD. In addition, once the IRS received Form 1095-A data, it revised its processes to use the data in an effort to verify PTC claims. These data were made available to IRS employees for manual research to verify PTC claims not supported by EPD. If the Form 1095-A data did not verify that the individual purchased insurance through an Exchange, the return was suspended from processing and the IRS corresponded with the taxpayer for additional supporting documentation.

[16] All of this data were partial year and reflected information for January through November.
[17] Six of the 15 State Exchanges did not provide EPD prior to January 20, 2015. In addition, some of the States that provided EPD did not submit the data to the IRS in time for the IRS to validate them prior to the start of the filing season.
[18] Fifty States and the District of Columbia.
[19] These tax returns are not included in our analysis of the 2.6 million tax returns on page 10.

However, even with the use of the Form 1095-A data, the IRS was unable to verify all PTC claims because not all State Exchanges submitted Forms 1095-A to the IRS timely or in a usable format. For example, as of January 31, 2015, the IRS received Form 1095-A data from 40 of the 50 States and the District of Columbia, but it could not use some of the Form 1095-A data received because the records did not meet the required data format. Throughout the filing season, the Exchanges continued to correct the format of their Form 1095-A filings provided to the IRS. As of April 15, 2015, the IRS had accepted Forms 1095-A from 47 of the 50 States and the District of Columbia.

Delays in loading the EPD into return processing systems further reduced the IRS's ability to efficiently verify PTC claims

IRS management indicated that the computer application the IRS uses to load the EPD into its tax return processing systems was not functioning properly. As a result, the IRS was unable to load most EPD received after January 20, 2015, for all 36 States in the Federal Exchange and 12 of the 15 State Exchanges until March 29, 2015. According to IRS management, improvements were made to the computer application used to receive and load the EPD into its processing systems and, as a result, it has been able to successfully load submitted EPD into its processing systems since March 29, 2015.

We believe that the majority of the delays in the IRS receiving the EPD for the 2015 Filing Season can be attributed to this being the first year that the Exchanges were required to provide these data. Our discussions with the Exchanges and the IRS indicated that some Exchanges experienced problems with their enrollment systems while others experienced delays in verifying the enrollment data with the insurance carriers as required by HHS regulation. Both conditions affected the Exchanges' ability to timely provide the IRS accurate EPD.

We plan to continue our evaluation of the effectiveness of IRS verification of PTC claims during the 2016 Filing Season, including an assessment of the IRS's receipt of required EPD and Forms 1095-A from the Federal and State Exchanges.

The Allowable Premium Tax Credit Was Computed Correctly for the Majority of Tax Returns; However, Programming Errors Resulted in Some Erroneous Claims

Our analysis of more than 2.6 million tax returns[20] filed between January 20, 2015, and May 28, 2015, in which the taxpayer either claimed the PTC or should have reconciled APTCs

[20] We reviewed 2.6 million of the 3.3 million tax returns filed as of May 28, 2015. We were unable to calculate the PTC for tax returns that we could not find support for in the EPD or that involved more complex calculations. We will attempt to review these more complex cases in our next review. See Appendix I for additional details.

per the EPD found that the IRS accurately determined allowable PTCs[21] on more than 2.4 million (93 percent) returns. The process to verify the amount of allowable PTC is complicated. The data provided by the Exchanges need to first be grouped or identified by tax household[22] and then the premium amount fields need to be totaled, 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 is then used to determine the taxpayer's allowable PTC. Finally, the allowable PTC amount needs to be reconciled with information from the Exchanges regarding the amount of APTC the taxpayer received to determine if the taxpayer is entitled to an additional PTC amount or must repay excess APTC.

For the remaining 182,884 tax returns for which our allowable PTC calculation differed from the IRS, we determined the following:

- 19,651 tax returns – the IRS incorrectly projected EPD amounts for months when the EPD were incomplete. Due to the timing of the filing of the EPD, the IRS does not have EPD for the entire prior calendar year at the start of the filing season. For example, the EPD submitted to the IRS in January 2015 included data for January through December 2014. However, the IRS did not load the data until after January 20, 2015. As a result, the IRS developed a program to extrapolate the APTC paid to insurers in December if the EPD shows a payment was made in November. This program was not extrapolating the APTC for December accurately. IRS management agreed that the program was not correctly extrapolating the APTC and informed us that the computer programing was corrected for the 2016 Filing Season. We will evaluate the IRS's corrective action in our next review.
- 7,895 tax returns – because of systemic problems with the computer hardware, the IRS did not identify these tax returns, which had APTC reported in the EPD, for further review during processing. As a result, 7,849 taxpayers received approximately $21 million more in PTCs than they were entitled to receive[23] and 46 taxpayers received $5,390 less in PTCs than they were entitled to receive.[24] According to IRS management, the IRS took actions in November 2015 to mitigate the systemic problems, and they have not recurred since then. We will evaluate the IRS's corrective action in our next review.

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[21] The IRS correctly identified questionable returns for review. Tax returns that meet certain dollar tolerances are verified. Tax returns below the tolerances are processed as filed.
[22] 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.
[23] Of these, 7,839 taxpayers did not repay $21,392,978 in APTC that they were required to repay.
[24] Of these, 36 taxpayers repaid $2,414 more in APTC than they were required to repay. We determined these amounts by comparing PTC calculated using the EPD to PTC calculated by the IRS using taxpayer amounts.

- 4,672 tax returns – taxpayers' reported income was over 400 percent of the FPL, but the IRS did not require the taxpayers to repay all of the APTCs they received. The ACA requires individuals who receive APTCs and who have income that is over 400 percent of the FPL to repay 100 percent of the APTC received. As a result, these taxpayers received approximately $6.5 million in APTCs that they were not entitled to receive.

  IRS management indicated that they did not require the taxpayers to repay all of the APTCs because 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 the 4,672 tax returns we identified above, the IRS cannot systemically assess the entire amount of APTCs reported in the EPD as the taxpayer's repayment amount. The IRS can only assess the amount of APTCs that the taxpayer self-reports on the tax return. For each of these 4,672 tax returns, the taxpayers, despite having income that should result in a 100 percent repayment of the APTC, did not self-report all APTCs received on their tax return. The Department of the Treasury has submitted a legislative proposal that would expand the IRS's authority to correct errors in cases for which the information provided by the taxpayer does not match the information contained in Government databases, including the EPD.

  However, it should be noted that the IRS can take other actions during processing to correct tax returns when the EPD do not support the amounts reported on the tax return. For example, the IRS developed processes to identify tax returns during processing for which the income reported exceeds the FPL threshold. If the discrepancy between what is reported by the taxpayer and the EPD is above a certain dollar limit, the IRS will suspend the tax return and correspond with the taxpayer to request that he or she verify the information on the tax return. The IRS can then adjust the tax return based on the taxpayer's response. The IRS did not correspond with the taxpayer on 4,560 (98 percent) of the 4,672 tax returns we identified because the returns were below the dollar limit.

- 281 tax returns – due to a computer programming error, the IRS incorrectly allowed the PTC to taxpayers who did not claim an exemption for themselves on their tax return. The ACA requires an individual to claim themselves on their tax return to receive the PTC. The IRS indicated that due to a programming error, some taxpayers who filed a paper tax return were allowed the PTC even though they did not claim a personal exemption. These 281 taxpayers received $777,105 more in PTCs than they were entitled to receive. IRS management informed us that the computer programing error was corrected for the 2016 Filing Season. We will evaluate the IRS's corrective action in our next review.

We are continuing to work with the IRS to determine the cause for the calculation differences we identified for the remaining 150,385 tax returns where our calculation did not agree with the IRS's calculation. We plan to incorporate any findings into our next review of the IRS's verification of PTC claims on Tax Year 2015 tax returns.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should ensure that a review is completed of the 27,827 tax returns TIGTA identified for which the IRS incorrectly verified the PTC claim to ensure that individuals receive the correct PTC amount.

> ***Management's Response:*** The IRS agreed with this recommendation. The IRS will conduct a review of the 27,827 tax returns to prioritize them against existing workload demands and resource constraints so that they may be addressed accordingly.

Programming Errors Resulted in Some Processing Controls Not Functioning As Intended

In an effort to identify erroneous PTC claims, the IRS developed the following processes:

- ***Preprocessing error screening.*** Prior to the IRS accepting an electronically filed (e-filed) tax return with a PTC claim, the tax return is screened through 80 PTC reject conditions. For example, one reject condition ensures that a Form 8962 is included with the tax return when the PTC is claimed. Another identifies a discrepancy between the number of exemptions reported on Form 1040, *U.S. Individual Income Tax Return*, and Form 8962. If a reject condition is identified, the tax return will be rejected back to the taxpayer for correction.

  Similar to the verifications performed for e-filed tax returns, paper-filed tax returns are perfected by tax examiners in the IRS's Code and Edit function before the tax return information is entered into the IRS computer system. For example, employees verify whether a Form 8962 is attached to the tax return. Once perfected by the Code and Edit function, the information from the paper-filed tax return, along with the perfected return coding, is entered into IRS computers.

- ***Real-time error identification.*** Once a tax return with a PTC claim is accepted for processing (e-filed and paper), the tax return is screened for 20 additional error conditions specific to the PTC:
  - 10 error conditions identify PTC mathematical errors on the tax return or Form 8962. Using its math error authority,[25] the IRS will correct the math error and notify the taxpayer of any resulting change in his or her PTC claim.
  - 10 error conditions identify discrepancies between PTC information reported on Form 1040 and Form 8962 as well as discrepancies between the PTC tax return information and the EPD the IRS receives from the Exchanges. Tax returns with

[25] Authority granted to the IRS in the Internal Revenue Code that allows the IRS to systemically correct certain mathematical or clerical errors on a tax return.

these conditions are sent to the IRS Error Resolution function for review. Depending on the dollar amount of the discrepancy, the IRS will correspond with the taxpayer for additional information to support his or her PTC claim or process the tax return and identify it for evaluation for post-processing compliance activity.

Evaluation of preprocessing error screening

As we reported in an interim report,[26] our analysis of tax returns processed as of March 26, 2015, verified that tax examiners were coding paper-filed tax returns with PTC error conditions. In addition, the IRS correctly accepted only those e-filed tax returns that did not contain 79 of the 80 reject conditions (codes). As of May 27, 2015, the IRS rejected more than 300,000 tax returns that included 624,371 PTC reject conditions.[27] For the remaining reject code, we found that tax returns are not rejecting when************2*****************[28] ********** **2************************ *****************************2***********************************. IRS management agreed that a programming error was causing some of this information to not be evaluated, which resulted in the reject code not functioning correctly. IRS management indicated the programming will be corrected on December 27, 2015, for Processing Year 2016.

Evaluation of real-time error identification

As we reported in our interim report, our analysis of tax returns processed as of March 26, 2015, also identified concerns with the functionality of four (20 percent) of the 20 PTC error codes. Figure 6 provides a breakdown of the approximately 2.4 million PTC error conditions identified on tax returns processed as of May 27, 2015.[29]

Figure 6: Analysis of PTC Error Codes as of May 27, 2015

Error Code	Code Type	Description	Tax Returns With Error Condition
276	Math Error	******************************2************************* ***********************2************************.	65,408
274	Math Error	******************************2*************************** **************2***************.	63,988

[26] TIGTA, Ref. No. 2015-43-057, *Affordable Care Act: Interim Results of the Internal Revenue Service Verification of Premium Tax Credit Claims* (May 2015).
[27] A tax return can have more than one reject condition.
[28]***2** ***2**********************************.
[29] A tax return can have more than one error condition.

Error Code	Code Type	Description	Tax Returns With Error Condition
271	Math Error	***************************2****************************** ***************************2****************************** ********2*******.	62,989
346	Math Error	**************************2****************************** *************************2*********************.	39,950
270	Math Error	**************************2******************************* **************************2***************************** **************************2******************************* ************2****************.	14,547
275	Math Error	*************************2****************************** ****************2****************[30].	10,340
344	Math Error	***************************2**************************** **************2**************.	5,215
345	Math Error	***********************2****************************** ***********************2***************************** ***********************2***************************** ***********************2****************************** *************2*************.	3,380
272	Math Error	**************************2*************[31] ************* ************************2***************.	28
273	Math Error	*************************2****************************** *************************2***************************** ****************2******************.	20
195	Other	********************2********************************* *************2************.	1,014,592
190	Other	**********************2****************************** **********************2****************************** **********************2****************************** ************2**************.	729,000
198	Other	************************2***************************** *******************2*********************.	153,554

[30] **2**
2
***************2***********.

[31] **2**
2.

Error Code	Code Type	Description	Tax Returns With Error Condition
196	Other	*************************2******************************** *************************2*********************************.	110,974
199	Other	**************************2****************************** ******************2*****************.	93,058
197	Other	*****************************2*************************** *********************2********************.	85,892
194	Other	************************2********************************** ************************2********************************* ************************2********************************* ****************2*********************.	15,948
191	Other	***********************2******************************** ************************2***************************** ***********************2******************************* ***2*******.	6,496
192	Other	****************************2****************************** ****************************2*************************** ****************************2*********************.	2,265
193	Other	****************************2****************************** ****************************2**************************** ****************************2***************************** *****2******.	99

Source: IRS Internal Revenue Manual and Error Code Volume reports.

As of May 13, 2015, the IRS confirmed that because of programming errors, the four error codes we identified did not always identify tax returns with the particular error condition.

- Error Codes 197 and 198: Computer programming did not identify returns for which the *******************************2************************************ *******************************2************************************ **********************2****************************. To address the programming errors, the IRS implemented revised programming on June 7, 2015, to reflect ******************************2****************************** *************2*****************. Analysis of tax returns processed as of July 9, 2015, found that the computer system changes implemented on June 7, 2015, were successful. Analysis of tax returns processed as of November 5, 2015, found that the computer system changes implemented on October 4, 2015, were successful.

- Error Code 199: Computer programming did not identify returns for ****2*** ******************************2**************************. The IRS indicated that programming errors resulted in a tolerance amount being incorrectly used and the system failing to compute an essential calculation that determines whether the error code was set. The IRS implemented computer system changes on June 7, 2015, to ensure that the error code *************************2********************** ********2********. Analysis of tax returns processed as of July 9, 2015, found that these computer system changes were successful.

- Error Code 275: Computer programming did not identify returns for ****2********* *********************************2************************************** **********************************2************************************* **************2**********. The IRS implemented computer system changes on October 4, 2015, to check ******************2****************************** ***********************************2******************************. Analysis of tax returns processed as of November 5, 2015, found that the computer system changes were successful.

Processes Have Been Established to Identify and Prevent Fraudulent Premium Tax Credit Claims

In an effort to identify and prevent potentially fraudulent PTC claims at the time tax returns are processed, the IRS developed the following processes:

- **Identity theft filters.** The IRS developed 10 PTC-specific filters to identify and stop tax returns with PTC claims that are potentially fraudulent and involve identity theft. When a tax return is identified as potentially fraudulent, the tax return will not post until the taxpayer authenticates his or her identity. If the taxpayer authenticates his or her identity, the return will then be sent for screening through the other remaining PTC-related filters.
- **Dependent Database[32] filters.** The IRS developed 11 PTC-related Dependent Database filters. These filters also check the tax returns against various predetermined scenarios aimed at identifying potentially fraudulent PTC claims. Tax returns meeting Dependent Database filter criteria are scored and considered for either the Automated Questionable Credit program[33] or examination.

Our analysis of tax returns processed as of May 14, 2015, verified that the identity theft and Dependent Database filters are operating as intended and correctly identifying potentially

[32] The Dependent Database is a risk-based audit selection tool used by the IRS to identify tax returns for audit. The Dependent Database is made up of a collection of information databases that include birth certificate information and court documents used to establish a relationship and residency between the taxpayer and the qualifying children claimed on the tax return.

[33] The Automated Questionable Credit program is a prerefund compliance program that uses systemic treatments such as automated taxpayer notifications and adjustments to work straightforward cases not handled by other traditional compliance processes.

erroneous PTC claims for further review. As of July 23, 2015, the IRS reported that more than 18,000 tax returns with a PTC claim were identified as potentially fraudulent. Figure 7 shows information on potentially fraudulent ACA-related tax returns.

Figure 7: Potentially Fraudulent ACA-Related Tax Returns Selected and Closed by Function (as of July 23, 2015)

Function	Total Returns Selected	Total Closures	PTC Dollars Protected
Identity Theft	22,114	16,761	$40,576,454
Automated Questionable Credit Program	21,117	952	$1,084,700
Examination	9,281	980	$1,135,979
Total	52,512	18,693	$42,797,133

Source: The IRS's Return Integrity and Compliance Services function.

Processes Do Not Use the Most Current Tax Filing Data to Identify Individuals Who Received Advance Premium Tax Credit Payments and Did Not File a Tax Return As Required

The IRS has established processes to identify individuals who received the APTC but did not file a tax return (hereafter referred to as nonfilers) to reconcile the amount of APTC received as required. The IRS has two data sources that can be used to identify nonfilers – the EPD and Form 1095-A. Our initial evaluation of the methodology the IRS used to identify nonfilers showed that the IRS primarily used Form 1095-A data to identify individuals who received the APTC. The IRS later used the EPD for two States that had not submitted any Forms 1095-A.

On August 3, 2015, the IRS provided us a list of 712,393 individuals who had received APTCs and had not filed a tax return or requested an extension of time to file. On September 4, 2015, we received a list of an additional 5,295 individuals. However, we found that some individuals were duplicated in the IRS's lists. As such, there were actually 703,934 unique nonfilers whom the IRS identified. These 703,934 nonfilers received more than $2.4 billion in APTCs.

Our analysis of the 703,934 nonfilers identified 17,761 (3 percent) who had filed a tax return or extension. 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. The IRS identified nonfilers using only those tax returns that had completed processing rather than using data showing that a tax return was received and was being processed. IRS management agreed that some taxpayers may have been inappropriately notified that they had not yet filed a tax return. According to IRS management, to mitigate the impact of these unnecessary letters, all of the letters discussed above notify the taxpayer that he or she may disregard the letter if a return has already been filed.

Taxpayers receiving APTC payments must file a tax return and reconcile the APTC amounts received with their allowable PTC. This reconciliation is necessary because the Exchanges base APTC amounts on estimates of an individual's income and family size for the upcoming calendar year. The amount of PTC an individual should receive is based on the income and family size reported on his or her annual tax return. This is often different from the estimates computed at enrollment. If a taxpayer does not file a tax return and reconcile the amount of APTC payments received, the taxpayer should not be eligible to receive the APTC from an Exchange in future enrollment years. During the Income and Family Size Verification process for the subsequent enrollment year, the IRS will provide Exchanges with a response code identifying those taxpayers who did not file a tax return for the tax year they received the APTC and, therefore, should be ineligible to receive the APTC.

We plan to further address the IRS's identification of nonfilers as part of a separate ongoing audit to address a July 20, 2015, request from the Chairman of the Senate Committee on Finance. The Chairman requested that TIGTA conduct a review of the applications, correspondence, and other documentation associated with Calendar Year 2014 APTC recipients who did not file a tax return to reconcile their APTC payments or seek an extension to file. The Committee asked us whether these individuals claimed eligibility under their true identities and were qualified for the APTC amount received. We expect to issue our audit report later this fiscal year.

The IRS issued letters to nonfilers alerting them of the requirement to file a tax return to reconcile the APTC received

The IRS mailed notices between July 10, 2015, and August 21, 2015, to 717,664 nonfilers[34] and 337,065 extension filers the IRS identified. The IRS notices (Letter 5591, Letter 5591-A, and Letter 5596) encouraged nonfilers to file a tax return and reconcile their APTCs as soon as possible. These notices also explained that not filing a tax return may affect their eligibility to receive the APTC next year.

- ***Letters 5591 and 5591-A*:** These letters state that IRS records show that the recipient did not file a Tax Year 2014 tax return to reconcile APTC payments. They also state that the recipient should file a return as soon as possible; otherwise, the recipient will not be eligible for financial assistance for Marketplace health insurance coverage in Calendar Year 2016. The IRS sent Letters 5591 and 5591-A to 717,664 individuals.
- ***Letter 5596*:** This letter states that IRS records show that the recipient has not yet filed a Tax Year 2014 tax return to reconcile APTC payments. Even if the recipient has an

[34] The number of specific notices provided by the IRS reflects 24 less notices than were actually included in the lists that the IRS provided to us.

extension, he or she should file a return as soon as possible; otherwise, he or she will not be eligible for financial assistance for Marketplace health insurance coverage in Calendar Year 2016. According to the IRS, Letter 5596 was sent to individuals who had requested an extension of time to file. The IRS sent Letter 5596 to 337,065 individuals.

Our review of 698,277 individuals who were identified by the IRS as nonfilers found that 210,027 filed a tax return after May 28, 2015, which is when the IRS identified them as a nonfiler.

The IRS will provide notification to Exchanges identifying individuals who have not filed tax returns to reconcile the APTC as required

The IRS has developed an external response code that is returned to the Exchanges when the Exchanges request tax return information during the Calendar Year 2016 Exchange open enrollment period. For example, when the Exchange requests tax information for an individual and that individual received the APTC in Calendar Year 2014 but has not yet filed his or her Tax Year 2014 tax return, the IRS will return a code indicating that the individual has not yet filed a tax return. The Exchanges are to use this information when determining if an individual remains eligible to receive the APTC in Calendar Year 2016.

However, not all individuals for whom the IRS returns the nonfiler code may be nonfilers at the time their coverage is being renewed. IRS management informed us that to be able to timely respond to Exchange requests for tax information beginning in October 2015, the IRS had to compile its nonfiler information as of September 10, 2015. This information was available to the Exchanges as of September 27, 2015. Subsequent updates occur monthly and 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. As a result, the IRS could incorrectly notify the Exchange that an individual has not filed a tax return when in fact the individual may have filed a tax return. For example, if a taxpayer filed a tax return on the October 15 extension due date, this would not be reflected in the data made available to the Exchanges until late November.

Our review of nonfilers identified by TIGTA found that 23,836 nonfilers subsequently filed a tax return between October 1, 2015, and October 23, 2015. If these taxpayers applied for insurance from the Exchange during this time period, the IRS would have incorrectly informed the Exchange that the taxpayer had not filed a Tax Year 2014 tax return. The IRS's decision to not use the most current tax information when responding to enrollment requests from Exchanges could cause burden and hardship on individuals who in fact filed their required tax return.

Recommendation

Recommendation 2: The Chief Technology Officer in conjunction with the Director, Affordable Care Act Office, should 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 has reconciled APTCs received in the prior calendar year.

Management's Response: The IRS agreed with this recommendation. However, the implementation of requisite programming changes is subject to budgetary constraints, limited resources, and competing priorities. Consequently, and due solely to those constraints, the IRS cannot provide an implementation date at this time.

Taxpayer Use of Incorrect Forms 1095-A, Health Insurance Marketplace Statement, Resulted in Incorrect Premium Tax Credit Claims

Our analysis of PTC claims filed between January 20, 2015, and May 26, 2015, identified 168,447 taxpayers whose PTC or APTC repayment amounts were incorrect as a result of the taxpayer receiving an incorrect Form 1095-A from the Exchange. This included 70,854 taxpayers who received approximately $8.3 million more in PTCs than they were entitled to receive and 69,405 taxpayers who received approximately $1.9 million less in PTCs than they were entitled to receive. Each of these taxpayers used an originally issued Form 1095-A rather than a subsequently issued corrected Form 1095-A when computing the PTC.

On February 20, 2015, the CMS reported that it issued incorrect Forms 1095-A to approximately 800,000 individuals who participated in the Federal Exchange. According to the CMS, a computer programming error caused the SLCSP premium amount for Calendar Year 2015 to be shown instead of Calendar Year 2014 on some Forms 1095-A issued by the Federal Exchange. Taxpayers use the SLCSP premium amount to compute their allowable PTC. The Department of the Treasury (Treasury Department) estimated that 50,000 of these taxpayers had already filed their tax return as of February 2015.

In addition, on February 13, 2015, the California State Exchange announced that approximately 100,000 of the Forms 1095-A it issued contained errors in coverage dates, enrolled individuals, or policy changes. Representatives from the Exchange indicated that these errors resulted from discrepancies between the Exchange's records and the information used by the insurance carriers. Representatives also estimate that approximately 50,000 individuals who should have received a Form 1095-A did not receive one as required. Exchange representatives indicated that corrected Forms 1095-A were issued in late February to replace the 100,000 incorrect forms. The Exchange was working to issue the remaining corrected Forms 1095-A by the end of March.

The IRS issued a number of press alerts to taxpayers and tax return preparers reiterating the importance of using the corrected Form 1095-A should they receive one to prepare their tax return. On February 24, 2015, the Treasury Department announced that taxpayers enrolled in the Federal Exchange who have already filed their tax return do not need to file an amended tax return to correct errors in their PTC claim resulting from an incorrect Form 1095-A. The Treasury Department stated that the IRS would not pursue action to recoup the excess PTC these taxpayers may have received as a result of the error. On March 20, 2015, the Treasury Department expanded relief from filing an amended tax return to all taxpayers who received and filed a tax return based on an incorrect Form 1095-A.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate the effectiveness of the IRS's verification of PTC claims during the 2015 Filing Season. To accomplish this objective, we:

I. Assessed the adequacy of the IRS's processes to validate EPD and Form 1095-A, *Health Insurance Marketplace Statement*, data provided to the IRS.

   A. Obtained a copy of the EPD files received from the Exchanges in October and November 2014.

      1. Analyzed the data extracts to identify any potential issues with the reliability of the data. We obtained the raw data files for one Exchange and compared limited fields to the EPD file provided and determined that there were no discrepancies in these fields. Also, we obtained the EPD as of February 2, 2015, from 24 Exchanges and performed analysis on limited fields to identify unreasonable values. We determined that the data were sufficiently reliable for our intended purpose.

      2. Determined whether the IRS was accurately processing all EPD records received.

   B. Determined whether the IRS's processes ensured that all required data were included in the EPD and Form 1095-A.

II. Determined if the IRS was adequately validating the accuracy of APTC reconciliations and PTC claims at filing.

   A. Determined if IRS business rules relevant to PTC processing accurately confirm PTC eligibility requirements and accurately calculate APTC reconciliations and PTC claims using taxpayer data provided on Forms 1040, *U.S. Individual Income Tax Return*, and 8962, *Premium Tax Credit (PTC).*

      1. Reviewed desk procedures and Internal Revenue Manuals for Error Resolution and Code and Edit functions for the PTC forms to determine if they adequately addressed issues identified during processing.

      2. Independently developed an APTC calculation and cross-checked the independent calculation against the IRS's APTC calculations.

   B. Determined if the IRS accurately calculated the repayment amount when the taxpayer received too much APTC during the coverage year. For taxpayers who chose not to receive the APTC at the time of enrollment, we determined how the IRS verified the accuracy of the PTC claim.

1. Obtained 3,313,505 2014 tax returns filed between January 20, 2015, and May 28, 2015, that either contained a Form 8962, reported a Net PTC or Excess APTC Repayment on Form 1040, or contained an ACA Resolution Code.[1] 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.[2] We determined that the data were sufficiently reliable for our intended purpose.
2. Identified 215,677 tax returns for which both TIGTA and the IRS did not have the EPD available.
3. Identified 222,926 tax returns for which TIGTA and the IRS showed different EPD amounts.
4. Identified 260,817 tax returns for which TIGTA could not verify the PTC due to a complex situation not built into the scope of TIGTA's PTC calculation. These included 60,972 tax returns requiring extrapolation due to missing months of EPD and tax returns with a Shared Policy Allocation or Alternative Calculation for Year of Marriage, *etc*. This also included 199,845 tax returns for which TIGTA was unable to verify the PTC due to TIGTA estimating allowable PTC when the taxpayer did not claim the PTC and the IRS not assuming eligibility for the PTC when the taxpayer did not claim the PTC.
5. Identified 2,431,201 tax returns for which TIGTA calculated a PTC that matched IRS calculations.
6. Identified 182,884 tax returns for which TIGTA calculated a PTC that did not match IRS calculations.

C. Determined if the IRS adequately identified and addressed potentially fraudulent requests for the PTC at filing.

1. Assessed the effectiveness of the IRS's current fraud filters for addressing potentially fraudulent requests for the PTC at filing and if the filters operated correctly.
2. Determined how the IRS identified taxpayers who received the APTC during the coverage year but either did not file a tax return or did not reconcile the amount of the APTC on their tax return during the filing season.

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[1] The ACA Resolution Code is an alphanumeric field that contains codes input by Error Resolution function examiners during tax return processing that indicate whether an ACA-related error check has been bypassed and the taxpayer entry is accepted.

[2] The Integrated Data Retrieval System is an IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

III. Assessed the impact on tax administration of the issuance of incorrect Forms 1095-A by the Exchanges.

A. Quantified the number of taxpayers who received an incorrect Form 1095-A and subsequently received an incorrect amount of the PTC or an incorrect APTC repayment amount. We obtained a data extract, provided by TIGTA's Strategic Data Services, of original and corrected Forms 1095-A from the Information Returns Database.[3] We selected a judgmental sample from our data extract and validated the data using Business Objects Enterprise.[4] We determined that the data were sufficiently reliable for our intended purpose.

B. Matched the Form 1095-A data received by the IRS to the EPD for the 2014 enrollment year and identified discrepancies in the data. We determined if the individuals who received an incorrect Form 1095-A have discrepancies between the EPD and IRS Form 1095-A data.

IV. Monitored IRS workloads and current staffing resources related to the processing of PTC claims.

A. Determined the number of PTC claims received by the IRS during the 2015 Filing Season. We obtained the IRS PTC-related Individual Master File[5] fields for the 3,313,505 returns extracted in Step II.B.1. 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 purpose.

B. Monitored the total Error Resolution inventory volume and the volume of PTC error codes and determined whether the error codes were functioning as intended.

C. Monitored e-filed tax returns for conditions that should have been rejected and determined whether the reject codes were functioning as intended.

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[3] 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.

[4] The Business Objects Enterprise is the IRS's business intelligence platform that provides users tools and applications for reporting, querying, and analyzing ACA information.

[5] The Individual Master File is the IRS database that maintains transactions or records of individual tax accounts.

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, validating, 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. We also evaluated the controls that are incorporated directly into computer applications to help ensure the validity, completeness, and accuracy of transactions and data during application processing of tax returns for the 2015 Filing Season.

Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Operations Support
Deputy Commissioner for Services and Enforcement
Chief Technology Officer
Associate CIO, 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; 8,130 taxpayers receiving $22,185,990 more in PTCs than they were entitled to receive as a result of the IRS not identifying potentially erroneous PTC claims during processing for further review (see page 10).

Methodology Used to Measure the Reported Benefit:

We obtained Tax Year 2014 tax returns filed between January 20, 2015, and May 28, 2015, which had indications of PTC. We independently developed a calculation to compute allowable PTCs and the amount of APTC required to be repaid and compared these figures to the IRS's calculations. We identified 8,130 tax returns for which the taxpayers received $22,185,990 in PTCs to which they were not entitled.

- 7,849 taxpayers who received $21,408,885 in PTCs to which they were not entitled as a result of programming errors that prevented the IRS from identifying the tax return during processing for further review. Our analysis of the tax returns for which TIGTA and IRS calculations did not match identified 7,895 tax returns for which the exposure amount computed by the IRS was equal to $0 and the IRS had set an error flag indicator showing that a Form 8962, *Premium Tax Credit (PTC)*, was not filed but for which the IRS had EPD. The exposure amount is an amount created by the IRS during processing that is calculated based upon differences between estimated amounts calculated by the IRS and amounts reported by the taxpayer. This amount represents the risk facing the IRS or risk facing the taxpayer for each tax return. When the taxpayer does not claim the PTC, the exposure amount should be equal to the amount of APTC payments received. Further analysis was completed to determine the amounts of PTCs allowed by the IRS and the amounts of APTCs reported after the returns had been processed. We compared the IRS amounts to the allowable PTCs computed and the APTCs obtained from the EPD by TIGTA to determine the amounts of PTCs taxpayers received to which they were not entitled. We determined that 7,849 of the 7,895 taxpayers we identified received $21,408,885 in PTCs to which they were not entitled.

- 281 taxpayers who received $777,105 in PTCs to which they were not entitled as a result of the IRS incorrectly allowing PTCs to taxpayers who did not claim an exemption for themselves on their tax return. The ACA requires an individual to claim himself or herself on his or her tax return to receive the PTC. Our analysis of the tax returns for which TIGTA and IRS calculations did not match identified 281 tax returns for which the taxpayer did not claim himself or herself as an exemption on Form 1040 and the PTC was allowed by the IRS. Further analysis was completed to determine the amount of PTC allowed by the IRS after the return had been processed. We compared the IRS amounts to the allowable PTCs computed and the APTCs obtained from the EPD by TIGTA to determine the amounts of PTCs taxpayers received to which they were not entitled.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 46 taxpayers receiving $5,390 less in PTCs than they were entitled to receive as a result of the IRS not identifying potentially erroneous PTC claims during processing for further review (see page 10).

Methodology Used to Measure the Reported Benefit:

We obtained Tax Year 2014 tax returns filed between January 20, 2015, and May 28, 2015, that had indications of PTCs. We independently developed a calculation to compute allowable PTCs and the amount of APTCs required to be repaid and compared these figures to the IRS's calculations. We identified 46 taxpayers who received $5,390 less in PTCs than they were entitled to receive as a result of programming errors that prevented the IRS from identifying the tax return during processing for further review. Our analysis of the tax returns for which TIGTA and IRS calculations did not match identified 7,895 tax returns for which the exposure amount computed by the IRS was equal to $0 and the IRS had set an error flag indicator showing that a Form 8962 was not filed but for which the IRS had EPD. The exposure amount is an amount created by the IRS during processing that is calculated based upon differences between estimated amounts calculated by the IRS and amounts reported by the taxpayer. This amount represents the risk facing the IRS or risk facing the taxpayer for each tax return. When the taxpayer does not claim the PTC, the exposure amount should be equal to the amount of APTC payments received. Further analysis was completed to determine the amounts of PTCs allowed by the IRS and the amounts of APTCs reported after the returns had been processed. We compared the IRS amounts to the allowable PTCs computed and the APTCs obtained from the EPD by TIGTA to determine the amounts of PTCs taxpayers received to which they were not entitled. We determined that 46 of the 7,895 taxpayers received $5,390 less in PTCs than they were entitled to receive.

Appendix V

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

MAR 2 1 2016

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Debra Holland Debra S. Holland
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Affordable Care Act: Internal Revenue Service Verification of Premium Tax Credit Claims During the 2015 Filing Season (Audit #201540317)

Thank you for the opportunity to review and comment on the subject draft report. We appreciate the acknowledgement of our successful efforts in processing and verifying the Premium Tax Credit (PTC) claims during the 2015 Filing Season. This was the first year in which taxpayers were required to reconcile, on their Tax Year 2014 returns, any advanced PTC (APTC) paid on their behalf with the actual amount to which they were entitled. Any excess APTC over PTC was to be repaid with the 2014 tax return, while those taxpayers whose APTC was less than the allowable PTC could receive a refund of the difference. The planning and preparation for administering the reconciliation process was a substantial effort over the course of several years, culminating in the processing of more than 2.9 million tax returns with approximately $9.8 billion in PTC. The IRS achieved a confirmed reconciliation accuracy rate of at least 93 percent, despite challenges associated with required marketplace data not being provided to the IRS in a timely fashion and some programming issues that affected data usability in the reconciliation process. As noted in the report, the Treasury Inspector General for Tax Administration (TIGTA) and the IRS continue to work toward reconciling calculation differences affecting approximately 150,000 returns, comprising another five percent of the total PTC returns.

The high accuracy rate of PTC reconciliation processing was achieved, in part, through the implementation of 80 return validation checks, and another 20 error detection checks. During the 2015 Filing Season, more than 300,000 electronic returns were rejected back to the sender for correction of PTC-related errors, inconsistencies, or missing forms, while other error checking routines detected approximately 2.4 million error conditions that were addressed and resolved before the returns were allowed to continue processing. Marketplace data and information reported on Form 1095-A, 2

Health Insurance Marketplace Statement, issued by Marketplace providers, was researched and used to resolve errors to the greatest extent possible. Corresponding for missing or incomplete information, in many cases, permitted the correction of inconsistent return entries and allowed the returns to complete the processing cycle.

For those 27,827 returns where the PTC claim may have been incorrectly verified, due to the reliance on projected partial-year data and programming errors, it is important to note that the IRS does not have the statutory authority to correct discrepancies without following deficiency procedures. Deficiency procedures, also known as audit procedures, are costly and compete with other enforcement priorities for scarce resources. We will review those returns to identify those that merit appropriate follow-up activity. While we agree with the TIGTA's computation of the Outcome Measure of $22.2 million associated with a subset of the 27,827 returns, we do not agree that it is an achievable outcome, as any actions taken on these returns will displace other compliance work with a corresponding loss of revenue equal to or greater than the amount of recovered APTC.

We also agree with TIGTA's recommendation to use the most current data available at the time an Exchange request is made, to determine if the taxpayer has reconciled APTC received for the prior year. The requisite programming to implement this recommendation is subject to budgetary constraints, limited resources, and competing priorities for those limited resources. We will pursue the programming changes, but continued funding constraints mean that we cannot provide an implementation date for the corrective action.

Attached are our comments to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Ivy McChesney, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Attachment

Attachment

RECOMMENDATIONS

RECOMMENDATION 1
The Commissioner, Wage and Investment Division, should ensure that a review is completed of the 27,827 tax returns TIGTA identified for which the IRS incorrectly verified the PTC claim to ensure that individuals receive the correct PTC.

CORRECTIVE ACTION
We agree with this recommendation. We will conduct a review of the 27,827 tax returns to prioritize them against existing workload demands and resource constraints so that they may be addressed accordingly.

IMPLEMENTATION DATE
September 15, 2016

RESPONSIBLE OFFICIAL
Director, Refundable Credits Policy and Program Management, Return Integrity and Compliance Services, Wage and Investment Division

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

RECOMMENDATION 2
The Chief Technology Officer in conjunction with the Director, Affordable Care Act Office should 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 has reconciled APTC received in the prior calendar year.

CORRECTIVE ACTION
We agree with this recommendation; however, the implementation of requisite programming changes is subject to budgetary constraints, limited resources, and competing priorities. Consequently, and due solely to those constraints, the IRS cannot provide an implementation date at this time.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
Director, Affordable Care Act Program Management Office

CORRECTIVE ACTION MONITORING PLAN
N/A