TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Processes Do Not Maximize the Use of Third-Party Income Documents to Identify Potentially Improper Refundable Credit Claims

July 17, 2017

Reference Number: 2017-40-042

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PROCESSES DO NOT MAXIMIZE THE USE OF THIRD-PARTY INCOME DOCUMENTS TO IDENTIFY POTENTIALLY IMPROPER REFUNDABLE CREDIT CLAIMS

Highlights

Final Report issued on July 17, 2017

Highlights of Reference Number: 2017-40-042 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

In December 2015, Congress enacted the Protecting Americans From Tax Hikes Act of 2015, which contains a number of integrity provisions intended to reduce improper Earned Income Tax Credit (EITC), Child Tax Credit, Additional Child Tax Credit (ACTC), and American Opportunity Tax Credit claims. These provisions are projected to save approximately $7 billion over 10 years by reducing fraud, abuse, and improper payments in refundable credit programs.

WHY TIGTA DID THE AUDIT

The integrity provisions expanded the IRS's ability to verify earned income before claims are paid, increased tax return preparer due diligence requirements, expanded taxpayer reporting requirements, and expanded the IRS's ability to ban individuals previously determined to have filed reckless or fraudulent claims from receiving the credit in the future.

WHAT TIGTA FOUND

Effective December 18, 2015, taxpayers must have a Taxpayer Identification Number that was issued before the due date of the tax return to claim the EITC and ACTC. However, the IRS does not have processes to identify claims for which a Taxpayer Identification Number was not timely issued (referred to as a retroactive claim) because it does not have the information needed to determine when a Social Security Number or Individual Taxpayer Identification Number was issued. As a result, the IRS paid more than $34.8 million in refundable tax credits on original tax returns for the 2016 Filing Season to 15,744 taxpayers whose Taxpayer Identification Number was not issued timely.

IRS processes also do not maximize the use of third-party income documents to identify potentially improper refundable credit claims. While the IRS has developed processes to systemically verify tax returns to available Forms W-2, *Wage and Earnings Statement*, it has not developed processes to effectively use Forms 1099-MISC, *Miscellaneous Income*, that report nonemployee compensation.

Finally, the IRS still has not established processes to prevent individuals who have a nonwork Social Security Number from receiving the EITC. As a result, 49,310 individuals not authorized to work in the United States received almost $117.7 million in potentially erroneous EITCs in Tax Year 2014.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS review the 15,744 tax returns filed during the 2016 Filing Season with an untimely Taxpayer Identification Number and take the steps necessary to recover credits paid in error; continue to evaluate opportunities to use Forms 1099-MISC to systemically verify income reported on EITC and ACTC claims; conduct a study to quantify the EITC and ACTC claims the IRS identifies with income discrepancies and assess the IRS's authority to address them; and evaluate the use of nonwork Social Security Number data the IRS currently has available for use in its systemic processes used to identify potentially erroneous EITC claims.

The IRS agreed with TIGTA's recommendations. The IRS plans to evaluate the 15,744 returns that TIGTA identified for appropriate post-refund treatment, explore options to improve the timeliness of Forms 1099-MISC and Forms W-2 processes, report to Congress the number of returns requesting EITCs or ACTCs that underreport and overreport income, and analyze available nonwork Social Security Number data to evaluate its usefulness in identifying fraudulent EITC claims.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

July 17, 2017

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Processes Do Not Maximize the Use of Third-Party Income Documents to Identify Potentially Improper Refundable Credit Claims (Audit # 201640031)

This report presents the results of our review to evaluate the effectiveness of the Internal Revenue Service's efforts to implement integrity provisions intended to reduce Earned Income Tax Credit, Child Tax Credit, Additional Child Tax Credit, and the American Opportunity Tax Credit improper payments, including integrity provisions in the Protecting Americans From Tax Hikes Act of 2015.[1] This audit is part of our discretionary audit coverage and addresses the major management challenge of Fraudulent Claims and Improper Payments.

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

Copies of this report are also being sent to the Internal Revenue Service 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).

[1] Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, 129 Stat. 2242 (2015).

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Appendices

Abbreviations

ACTC	Additional Child Tax Credit
AOTC	American Opportunity Tax Credit
ATIN	Adoption Taxpayer Identification Number
CTC	Child Tax Credit
EITC	Earned Income Tax Credit
IRS	Internal Revenue Service
IRTF	Individual Return Transaction File
ITIN	Individual Taxpayer Identification Number
NAP	National Account Profile
PATH	Protecting Americans From Tax Hikes Act of 2015
SSA	Social Security Administration
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration

Background

Refundable credits help low-income individuals reduce their tax burden or provide incentives for other activities. For example, the Earned Income Tax Credit (EITC), created in 1975, is used to offset the impact of Social Security taxes on low-income families and encourage them to seek employment rather than welfare.[1] Congress also created the Child Tax Credit (CTC) and the Additional Child Tax Credit (ACTC) because the individual income tax structure did not reduce an individual's tax liability enough to reflect a growing family's reduced ability to pay taxes as family size increased. Refundable credits also provide incentives for other activities, such as obtaining a college education. The American Opportunity Tax Credit (AOTC) allows individuals to receive a credit for higher education expenses. Figure 1 shows the amount of EITC, ACTC, and AOTC[2] claimed by taxpayers during Tax Year 2015.[3]

Figure 1: EITC, ACTC, and AOTC Claimed and Allowed By Individuals for Tax Year 2015

Refundable Credit	Tax Returns Claiming at Least One Refundable Credit	Credit Claimed
EITC	27.5 million	$67.5 billion
ACTC	19.2 million	$26.0 billion
AOTC	9.6 million	$8.5 billion
Total	**56.3 million**	**$102.0 billion**

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of the Internal Revenue Service's (IRS) Individual Return Transaction File[4] (IRTF) for Tax Year 2015. Individuals may have claimed more than one of the credits shown on a tax return.

Refundable credits present an increased risk for improper payments

Although refundable credits provide benefits to individuals, the unintended consequence of these credits is that they are often the targets of unscrupulous individuals who file erroneous claims for them. In particular, refundable tax credits present an additional avenue for individuals to commit filing fraud. The maximum benefits an individual will receive if a nonrefundable credit is claimed inappropriately is to fully offset his or her tax liability. Refundable credits do not have such

[1] Tax Reduction Act of 1975 § 204, 26 U.S.C § 32.
[2] These represent three of the most common refundable credits currently available to taxpayers.
[3] A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
[4] The IRTF contains individual tax return data.

limitations. In essence, individuals can obtain money that they did not earn and to which they are not entitled simply by claiming a refundable tax credit. Refundable credits can result in tax refunds even if no income tax is withheld or paid; that is, the credits can exceed the liability for tax, whereas nonrefundable tax credits are limited to the amount of an individual's income tax liability.

The IRS estimates that it improperly issued $16.8 billion in EITC payments in Fiscal Year[5] 2016. In April 2016,[6] we reported that the IRS's own enforcement data indicates that ACTC and AOTC improper payments are also substantial. We estimate that the potential ACTC improper payment rate for Fiscal Year 2015 is 24.2 percent, with potential improper payments totaling $5.7 billion, and the potential AOTC improper payment rate for Fiscal Year 2015 is 30.7 percent, with potential improper payments totaling $1.8 billion.

Refundable credit integrity provisions were enacted in an effort to reduce fraudulent and improper payments

Congress enacted the Protecting Americans From Tax Hikes (PATH) Act[7] on December 18, 2015, which includes refundable credit program integrity provisions specifically intended to reduce fraudulent and improper EITC, CTC, ACTC, and AOTC payments. These integrity provisions are projected to save roughly $7 billion over 10 years by reducing fraud, abuse, and improper payments in refundable credit programs. The integrity provisions in the PATH Act expanded the IRS's ability to verify earned income before claims are paid, increased tax return preparer due diligence requirements, expanded taxpayer reporting requirements, and expanded the IRS's ability to ban individuals previously determined to have filed reckless or fraudulent CTC/ACTC and AOTC claims from receiving the credit in the future.

Although the majority of the PATH Act program integrity provisions were not effective until January 1, 2016, the provisions restricting the ability to make a retroactive EITC, CTC/ACTC, or AOTC claim[8] were effective December 18, 2015. Figure 2 provides the integrity provisions of the PATH Act that we evaluated in this review, along with the effective date of each provision.

[5] 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.
[6] TIGTA, Ref. No. 2016-40-036, *Without Expanded Error Correction Authority, Billions of Dollars in Identified Potentially Erroneous Earned Income Credit Claims Will Continue to Go Unaddressed Each Year* (Apr. 2016).
[7] Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, 129 Stat. 2242 (2015).
[8] A retroactive claim is a credit claimed for a prior tax year.

Figure 2: PATH Act of 2015 Integrity Provisions

Provision	Description of Provision	Effective Date
Section 201: Modification of filing dates of returns and statements relating to employee wage information and nonemployee compensation to improve compliance.	- Modifies the due dates of Forms W-2, *Wage and Tax Statement*, and 1099-MISC, *Miscellaneous Income (Info Only)*, to January 31. - Provides additional time for the IRS to review refund claims based on the EITC and the ACTC in order to reduce fraud and improper payments. No credit or refund shall be made to a taxpayer before February 15 if the taxpayer claimed the EITC or ACTC on the tax return.	January 1, 2016 (2017 Filing Season[9])
Sections 204-206: Prevention of retroactive claims.	- Prevents retroactive claims for the EITC after issuance of a Social Security Number (SSN) and prevents retroactive claims for the CTC/ACTC and the AOTC after the issuance of an SSN, Individual Taxpayer Identification Number (ITIN),[10] or Adoption Taxpayer Identification Number (ATIN).[11] Taxpayers cannot file an amended tax return or original tax return for prior years to claim credits if the SSN, ITIN, or ATIN were not issued prior to the return due date.	December 18, 2015 (2016 Filing Season)
Section 207: Procedures to reduce improper claims.	- Expands the paid preparer due diligence requirements to cover the CTC/ACTC and the AOTC as well as the EITC, including the associated per-credit penalty for failure to comply.[12] - Requires the IRS to study the effectiveness of the current due diligence procedures and whether these procedures should apply to other methods of tax filing. The report showing the study results for the EITC is due on December 18, 2016, and the report for the CTC/ACTC and AOTC is due on December 18, 2017.	January 1, 2016 (2017 Filing Season)

[9] The period from January through mid-April when most individual income tax returns are filed.
[10] An ITIN is issued by the IRS to individuals who are required to have a Taxpayer Identification Number for tax purposes but who do not have or are not eligible to obtain an SSN.
[11] An ATIN is a temporary identification number issued by the IRS for a child in a domestic adoption when the adopting taxpayers do not have or are unable to obtain the child's SSN.
[12] The penalty is $510 for Tax Year 2016. The penalty amount is indexed for inflation and will be adjusted each year.

Provision	Description of Provision	Effective Date
Section 208: Restrictions on taxpayers who improperly claimed credits in a prior year.	- Expands the EITC two-year and 10-year ban to the CTC/ACTC and the AOTC, barring individuals from claiming these credits if it has been determined that the credits were claimed with reckless or intentional disregard or claimed fraudulently. - Adds math error authority, which permits the IRS to disallow improper credits without a formal audit if the taxpayer claims the credit in a period during which he or she is barred from doing so due to fraud or reckless or intentional disregard. - Expands to the CTC/ACTC and AOTC the EITC requirement for taxpayers to recertify the next time they claim the credit when it was disallowed.	January 1, 2016 (2017 Filing Season)

Source: PATH Act of 2015.

TIGTA has conducted a number of reviews that evaluate the IRS's efforts to reduce erroneous and improper refundable credit payments. These reviews evaluate the IRS's efforts to comply with improper payment requirements as well as processes and procedures in place to detect and prevent erroneous EITC, ACTC, and AOTC payments. A list of reports issued in Fiscal Years 2012 through 2016 is provided in Appendix V.

Our review was performed with information obtained from the IRS Wage and Investment Division's Return Integrity and Compliance Services function in Atlanta, Georgia, during the period May 2016 through January 2017. 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 objectives. 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

Processes Were Not Established to Identify and Disallow Retroactive Claims As Required

Our review of Tax Year 2014 tax returns filed and processed during the 2016 Filing Season as of May 26, 2016, identified more than $34.8 million in CTCs, ACTCs, EITCs, and AOTCs that were paid to 15,744 taxpayers filing tax returns for years prior to when their SSN, ITIN, or ATIN was issued. Each of the refundable credit claims associated with the 15,744 returns we identified should have been disallowed by the IRS. Effective December 18, 2015, provisions of the PATH Act prevent taxpayers from filing an original or amended tax return for prior years (referred to as retroactive claims) to claim the EITC, CTC, ACTC, and AOTC when the SSN, ITIN, or ATIN used to claim the credit was not issued prior to the due date of the tax return.[13] Figure 3 provides a breakdown of the amount of erroneous credits taxpayers received for Tax Year 2014 by credit. It should be noted that one return could have more than one type of credit claimed.

Figure 3: Tax Year 2014 Retroactive CTC, ACTC, EITC, and AOTC Claims Paid in Error During the 2016 Filing Season

Taxpayer Identification Number Type	Taxpayers With Claim[14]	Total Erroneous Credit Allowed
Child Tax Credit		
Social Security Number	1,299	$971,585
Individual Taxpayer Identification Number	3,102	$2,231,775
Adoption Taxpayer Identification Number	5	$2,338
Total	**4,406**	**$3,205,698**
Additional Child Tax Credit		
Social Security Number	4,760	$5,637,642
Individual Taxpayer Identification Number	8,093	$11,151,387
Adoption Taxpayer Identification Number	0	0
Total	**12,853**	**$16,789,029**

[13] The PATH Act prevents the filing of retroactive EITC claims for years prior to the issuance of an SSN and the filing of retroactive CTC/ACTC and AOTC claims for years prior to the issuance of an SSN, ITIN, or ATIN.
[14] For taxpayers who requested an extension to file their tax return, we determined whether the SSN, ITIN, or ATIN was issued by the due date of the extension.

Taxpayer Identification Number Type	Taxpayers With Claim[14]	Total Erroneous Credit Allowed
Earned Income Tax Credit		
Social Security Number	5,133	$14,379,874
Individual Taxpayer Identification Number	***1***	***1***
Adoption Taxpayer Identification Number	0	0
Total	*****1*****	******1******
American Opportunity Tax Credit		
Social Security Number	351	$323,788
Individual Taxpayer Identification Number	141	$119,456
Adoption Taxpayer Identification Number	0	0
Total	**492**	**$443,244**

Source: TIGTA analysis of the ITIN Real-Time System,[15] the ATIN System,[16] the National Account Profile (NAP),[17] the IRTF, and the Individual Master File[18] as of May 26, 2016.

We shared the results of our analysis of Tax Year 2014 tax returns with IRS management. IRS management indicated that they will make a determination as to the treatment of the 15,744 tax returns that we identified. Management indicated that the determination on the treatment of cases will be based on the level of available resources. In addition, IRS management indicated that although the provisions were effective in December 2015, the IRS was unable to implement processes to identify erroneous claims for the 2016 Filing Season. For example, the SSN issuance date was not included in the information the IRS receives from the Social Security Administration (SSA), and IRS databases did not include the ITIN issuance date for ITINs issued prior to Calendar Year 2014. These dates are needed to identify a retroactive claim at the time tax returns are filed. Management further explained that even if the IRS had the issuance date data, the changes to modify its computer systems to include the SSN, ITIN, and ATIN issuance date and implement processes to identify affected claims filed for the 2016 Filing Season would not have been possible because the provisions were enacted 32 days prior to the start of the filing season.

[15] A web-based application used by ITIN tax examiners to process, assign, and record applicant submissions from people with tax consequences who do not have and are not eligible for an SSN. Tax examiners review all applications and attached documents and then input the information into the ITIN Real-Time System.
[16] The ATIN System contains the unique temporary Taxpayer Identification Numbers for children who are in the process of being adopted and cannot yet apply for an SSN until the adoption is final.
[17] The NAP is a compilation of selected entity data from various IRS Master Files. It includes SSA data (DM-1) and Cross Reference data (XREF), making it possible to verify taxpayers who have no IRS primary Master File account. The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
[18] The IRS database that maintains records of individual tax accounts.

It should be noted that the IRS has taken a number of steps to fully implement the PATH Act provision related to retroactive claims for the 2017 Filing Season. These include:

- Signed an agreement with the SSA and began receiving SSN issuance dates in January 2017.
- Added issuance dates for the SSN, ITIN, and ATIN to IRS systems used in processing tax returns.
- Established processes to disallow credits during processing using math error authority for claims on original prior year tax returns filed using SSNs, ITINs, or ATINs that were not issued by the due date of the tax return.
- Improved processes to identify amended tax returns filed using SSNs, ITINs, or ATINs that were not issued prior to the due date of the return.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should take steps to recover the more than $34.8 million in EITCs, CTCs, ACTCs, and AOTCs erroneously paid to the 15,744 filers with retroactive claims that we identified.

> ***Management's Response:*** The IRS agreed with this recommendation and plans to evaluate this population for inclusion in the appropriate post-refund treatment program.

The Methodology for Recreating the Individual Taxpayer Identification Number Issuance Date Resulted in Errors

As we previously indicated, the IRS did not capture the ITIN issuance date for all ITINs. An ITIN is a nine-digit number issued by the IRS to individuals who are required to have a Taxpayer Identification Number for tax purposes but who do not have or are not eligible to obtain an SSN. An ITIN begins with the number 9 and contains unique numbers in the 4th and 5th digits that indicate the number is an ITIN. The IRS did not begin capturing the issuance date for an ITIN until January 2014, when it began using the ITIN Real-Time System.[19] For ITINs issued before then, the IRS could only determine a general time frame an ITIN was issued.

In March 2016, the IRS implemented a process to estimate the assignment date for all ITINs issued before January 2014. This process is as follows:

- For ITINs issued from Calendar Year 1996 to June 2006, the IRS estimated the ITIN issuance date to be 14 calendar days from the date the Form W-7, *Application for IRS*

[19] The ITIN Real-Time System is used to assign ITINs to people with tax consequences who do not have and are not eligible for an SSN.

Individual Taxpayer Identification Number, was received by the IRS. The IRS used 14 calendar days because that was the standard time to process a Form W-7 during that time frame.

- For ITINs issued from June 2006 to January 2014, the IRS estimated the issuance date based on the date the ITIN Issuance Notice was sent to the applicant.

Subsequent to developing the above process, the IRS found its methodology for estimating the ITIN issuance date for ITINs issued from June 2006 to January 1, 2014, was not always accurate because the IRS also issues an ITIN Assignment Notice when the taxpayer changes his or her name or address. The IRS worked with its Information Technology staff to research specific criteria necessary to correct the erroneous assignment dates. According to IRS management, corrections were made to the erroneous assignment dates on December 22, 2016. We will assess the IRS's efforts to correct the erroneous assignment dates in our review of the IRS's efforts to prevent the issuance of EITCs, CTCs, ACTCs, and APRCs to taxpayers who do not have a timely issued SSN, ITIN, or ATIN during the 2017 Filing Season. We plan to issue our report later this calendar year.

Some Tax Forms, Instructions, and Internal Guidance Were Not Updated to Reflect Tax Law Changes

Our review of IRS internal guidelines and Tax Year 2016 draft tax forms and instructions found that some of the applicable internal guidelines and forms and instructions were not always updated to include necessary information related to the PATH Act provisions. Specifically, we identified the following:

- ***PATH Act Sections 204-206 – Prevention of Retroactive Claims*** – Internal guidelines for working the ACTC had not been updated to provide instructions to research the issuance date of the SSN, ITIN, or ATIN when working amended prior year returns. In response to our concerns, the IRS strengthened the messaging on the PATH Act in the internal guidelines by instructing employees that SSNs, ITINs, or ATINs must be issued before the due date of the tax return.

- ***PATH Act Section 207 – Paid Preparer Due Diligence Requirements*** – Draft Tax Year 2016 Form 8867, *Paid Preparer's Earned Income Checklist*, and related instructions did not include information for the paid preparer to ensure that the SSNs, ITINs, or ATINs used to claim the CTC, ACTC, and AOTC were issued before the due date of the tax return. IRS management agreed and updated the Tax Year 2016 Form 8867 instructions. We verified that the Form 8867 instructions were updated.

- ***PATH Act Section 208 – Restrictions on Taxpayers Who Improperly Claim Credits in a Prior Year*** – Draft Tax Year 2016 Form 1040, Schedule EIC, *Earned Income Credit*, provides a warning clause for taxpayers informing them of the two-year and 10-year rule. However, the IRS had not updated Schedule 8812, *Child Tax Credit*, and related instructions and the draft Tax Year 2016 Form 8863, *Education Credits (American Opportunity and*

Lifetime Learning Credits), and related instructions to include a warning to taxpayers of the rules banning taxpayers who intentionally or fraudulently claim erroneous EITCs from receiving the credit for two or 10 years. IRS management agreed with our assessment. Management indicated that revisions would be made to the instructions for Form 8863 and Schedule 8812 for Tax Year 2016. However, management noted that it was too late to add the warning on Schedule 8812 or Form 8863 for Tax Year 2016. We verified that the information was added to the instructions for Form 8867 and Schedule 8812.

In addition, we found that the draft Tax Year 2016 instructions for Form 1040 do not include a warning clause to taxpayers of the rules banning taxpayers who intentionally or fraudulently claim erroneous CTCs, ACTCs, or AOTCs. IRS management agreed and stated that the IRS would add verbiage about the two-year and 10-year bans for the CTC, ACTC, and AOTC to the "What's New" section of the Tax Year 2016 Form 1040 instructions. We verified that Tax Year 2016 instructions for Form 1040 were updated.

Processes Have Not Been Developed to Maximize the Use of Third-Party Income Documents to Identify Potentially Improper Refundable Credit Claims

Our review identified that the IRS established processes to hold all refunds that include the EITC or ACTC until February 15, 2017, as required. In addition, IRS management informed us that all EITC and ACTC claims will be verified against Forms W-2 data to identify claims that have unsupported income. Those that are identified as potentially fraudulent will be addressed as part of the IRS's fraud prevention programs. The remaining returns with an income discrepancy will be addressed as part of the IRS's overall Questionable Refund Program.[20] Management stated that these returns will be referred to the Examination or Automated Questionable Credits programs.[21] It should be noted that the Questionable Refund Program processes will not ensure that all EITC and ACTC claims with unsupported income will be reviewed before refunds are paid.

In addition, management indicated that only those returns with a refund greater than an established dollar tolerance will be selected for review by the Examination or Automated Questionable Credits programs. As a result, only those EITC and ACTC claims that contain an income discrepancy and have a refund above the established dollar tolerance will be subject to additional review before the refund is paid.

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[20] The Questionable Refund Program is a nationwide multifunctional program designed to identify fraudulent returns, to stop the payment of fraudulent refunds, and to refer identified fraudulent refund schemes to Criminal Investigation field offices.

[21] Tax examiners in the Automated Questionable Credits program review tax accounts and determine if appropriate documentation exists for the credit(s) claimed.

<u>****************2**************************** Forms 1099-MISC information ****2**** ************************2*************************</u>***

IRS management indicated that for the 2017 Filing Season ***********2*********** Forms 1099-MISC ****************************2************************* ****2****. IRS management explained that they have concerns with various limits for individuals reporting business income on Form 1040, Schedule C, *Profit or Loss From Business (Sole Proprietorship)*, or other self-employment income reported on Form 1040, Schedule F, *Profit or Loss From Farming*, or Form 1040, Schedule E, *Supplemental Income and Loss*. For example, taxpayers ********2******** may have legitimate income but no Form 1099-MISC because a Form 1099-MISC is not always required. Third parties are not required to file a Form 1099-MISC until they pay another party over $600 for services. Employers can also request an extension to file Form 1099-MISC based on the employer or payer's circumstances. Third parties who request an extension are automatically granted one 30-day extension and can request an additional 30-day nonautomatic extension.

In addition, IRS management stated that *******************2********************* *****************2*****************[22] ***********2****** has unique challenges. According to IRS management, ********************2**************************** ********************2*****************[23]******************2******************** *************************************2*************************************** *************************************2***************************************.

While the IRS may not be able **************************2************************** ********2***********, the information it receives can be used to identify tax returns at the time they are filed for which the reported income is questionable. Individuals who receive a Form 1099-MISC with nonemployee compensation are to include that income on Schedule C, Line 1. At a minimum, the IRS can ensure that individuals for whom a Form 1099-MISC was filed submitted a Schedule C with their tax return. In addition, the IRS can match the total nonemployee compensation reported on Forms 1099-MISC for a taxpayer to the total income reported on Schedule C, Line 1. Tax returns for which Schedule C, Line 1, income is significantly higher or lower than the total Form 1099-MISC income can be identified for additional review before the EITC or ACTC claim is paid.

<u>The PATH Act did not expand available treatment streams to address identified questionable improper EITC and ACTC claims</u>

As we have previously reported, enacted legislative program integrity provisions are intended to ensure that the IRS has the information and time needed to verify the earned income of individuals claiming the EITC and ACTC before the related refund is issued. Although legislation gives the

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[22] The IRS's automated system to prevent, detect, to resolve tax noncompliance and fraud.
[23] Systemic process used by the IRS to compare the income reported on tax returns to Forms W-2 submitted by employers.

IRS more time to verify EITC and ACTC claims before refunds are issued, it did not expand the IRS's authority to systemically correct erroneous claims that are identified at the time tax returns are processed.

According to the IRS, erroneous or fraudulent income accounts for 30 percent of identified erroneous EITC payments. However, as we continue to report, IRS compliance resources are limited. Consequently, the IRS does not address the majority of potentially erroneous EITC claims despite having established processes that identify billions of dollars in potentially erroneous EITC payments. In September 2014, we reported that without expanded correctable error authority, the IRS will be unable to prevent the issuance of billions of dollars in improper EITC payments. For example, our analysis of Tax Year 2012 EITC claims for which taxpayers claimed wages as the source of income to support the EITC identified 676,992 tax returns for which third-party Forms W-2 were not sent to the IRS by the employer for either the taxpayer or spouse listed on the tax return. These 676,992 tax returns claimed EITCs totaling more than $1.7 billion.

The IRS, in conjunction with the Assistant Secretary of the Treasury for Tax Policy, has put forth a legislative proposal requesting additional error authority (hereafter referred to as correctable error authority). The IRS requested correctable error authority as part of its Fiscal Year 2017 budget submission. Under this proposal, the Treasury would have regulatory authority to permit the IRS to correct errors for cases in which:

1. The information provided by the taxpayer does not match the information contained in Government databases (*e.g.*, income information reported on the tax return does not match Forms W-2 from the SSA). According to the IRS, reliable Government data sources include information obtained from the SSA, the Department of Health and Human Services, the Federal Bureau of Prisons, and the States' Departments of Corrections.
2. The taxpayer has exceeded the lifetime limit for claiming a deduction or credit.
3. The taxpayer has failed to include documentation with his or her return that is required by statute.

However, as of March 2017, the IRS had not been provided the requested authority. IRS management also noted that additional funding was not provided to address additional potentially improper claims that could be identified.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 2: Continue to evaluate opportunities to use Form 1099-MISC in conjunction with Form W-2 to *********2************** for all EITC and ACTC claims *******2******* ******2**********.

Management's Response: The IRS agreed with this recommendation and plans to explore options to improve the timeliness of Form 1099-MISC and Form W-2 processes.

Recommendation 3: For the purpose of informing the Congress on the benefit of the early availability of third-party documents, conduct a study to quantify the number of EITC and ACTC claims that the IRS identifies with unreported, underreported, and overreported income. Include information as to the number and amount of identified claims the IRS was able to address using existing authority (*i.e.*, through an audit) in comparison to the total number and amount of claims identified.

Management's Response: The IRS agreed with this recommendation and plans to commit to reporting the number of returns requesting EITCs or ACTCs that the IRS identifies with unreported, underreported, and overreported income based on third-party reporting.

Processes Still Have Not Been Established to Prevent the Issuance of Earned Income Tax Credits to Individuals With Social Security Numbers That Are Not Valid for Work

In September 2001, we reported that the IRS did not have a process to identify and stop EITC claims filed by individuals using an SSN that is not valid for work (hereafter referred to as a nonwork SSN).[24] Our audit identified more than $2 billion in EITC claims that was paid for Tax Years 1997 to 1999 to individuals who filed tax returns with nonwork SSNs. However, we also reported that the SSA data received by the IRS did not enable the IRS to differentiate between nonwork SSNs issued for obtaining Federal benefits from those issued for other reasons. In addition, we found that the IRS had not requested the data necessary to identify the nonwork SSNs issued.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996,[25] enacted August 22, 1996, requires individuals claiming the EITC to have a valid-for-work SSN and authorizes the IRS to deny claims to those individuals who file using an invalid SSN. The taxpayer, spouse (if filing married filing jointly), and each qualifying child must have a valid SSN to be eligible to claim the EITC. For purposes of the EITC, a valid SSN is a number issued by the SSA to a United States citizen or to a noncitizen[26] who obtained the SSN for purposes other than to obtain a benefit partially or fully funded by the Federal Government (*e.g.*, Medicaid or food stamps).[27] These "benefit-only" SSNs are typically referred to as nonwork SSNs. In addition, a

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[24] TIGTA, Ref. No. 2001-40-185, *Letter Report: Substantial Earned Income Credit Is Paid to Non-Entitled Individuals Who Use Not Valid for Work Social Security Numbers* (Sept. 2001).
[25] Pub. L. No. 104-193, 2105 Stat. 110.
[26] To be eligible for the EITC, a noncitizen generally must be a resident alien for more than half the tax year.
[27] The SSA was granted the authority to issue SSNs for the purposes of obtaining Federally funded benefits and other nonwork purposes in October 1972 with the passage of the Social Security Amendments of 1972, Pub. L. No. 92-603.

valid SSN does not include an ITIN, an ATIN, or an IRS Number.[28] The SSA has issued almost 8 million "*NOT VALID FOR EMPLOYMENT*" (nonwork) SSNs since 1972 to individuals who do not have authorization to work in the United States.

We recommended that the IRS develop a process to identify and prevent the issuance of the EITC to taxpayers with nonwork SSNs issued to claim Federal benefits. IRS management agreed with our recommendation. Despite management agreeing to implement such a process, our current review of Tax Year 2014 returns identified 49,310 individuals who are not authorized to work in the United States but who received more than $117.7 million in potentially erroneous EITCs.

The IRS maintains the NAP file, which is compiled using data obtained from the SSA Numident Database[29] and contains Citizenship Codes that indicate the individual's citizenship status. Citizenship Code C indicates that an individual is an alien not authorized to work in the United States. Our analysis of the NAP as of October 2015 found that 2.6 million SSNs have a Citizenship Code C. We once again contacted the SSA to confirm that the SSA Numident Database contains data showing the type of SSN issued to each individual. For example, the data would identify those individuals assigned a nonwork SSN. The SSA indicated that the Numident Database contains a field named "Evidence Code" (also referred to in SSA documentation as "Interview Code" or "IDN") that would enable the IRS to identify individuals whose SSNs were issued by the SSA as not valid for work. However, the IRS currently does not receive this field as part of the data the SSA provides to the IRS.

We notified the IRS of our continued concerns with the lack of processes to prevent EITC claims to individuals with nonwork SSNs. We recommended that the IRS work with the SSA to evaluate the usefulness of the "Evidence Code" field in the SSA Numident Database. IRS management stated that they coordinated with the SSA and determined that the Evidence Code field did not provide a unique identifier for a taxpayer with a nonwork SSN obtained for Federal benefits. However, IRS management agrees that there may be options to use the Citizenship Codes on the NAP—but there are limitations. For example, the SSA assigns nonwork SSNs to noncitizens entitled to a Federally funded benefit or State or local public assistance benefit but does not record the reason that a nonwork SSN is assigned. For this reason, it may be problematic to rely on the Citizenship Code data to remove the EITC through math error authority. IRS management stated that they will continue to work with the SSA on data attributes which may be available to improve reliability. As an alternative, IRS management stated that they will work with their research organization to determine the feasibility of using other data sets which may provide insight on taxpayers or their dependents receiving Federally funded benefits. Based on data, the IRS will determine the next steps and seek to integrate any findings into systemic at-filing checks or consider a strategy for contacting the taxpayer.

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[28] A temporary number issued by the IRS.
[29] When the SSA assigns an SSN to an individual, it creates a master record of relevant information about the number holder in its Numident Database. This includes such information as the number holder's name, date of birth, place of birth, parents' names, and citizenship status.

While the data maintained by the SSA may not be detailed enough to determine if a nonwork SSN was issued for the purposes of receiving a Federal benefit, the data is sufficient to identify potentially questionable claims. For example, the IRS can use the existing Citizenship Code and the SSA Evidence Code to identify claims filed by individuals who were issued a nonwork SSN. Processes can then be developed to correspond with the taxpayer to request additional information as to the individual's SSN status. For those taxpayers who respond, the IRS can then use the additional information provided to determine the validity of the EITC claim.

Recommendation

Recommendation 4: The Commissioner, Wage and Investment Division should evaluate the use of nonwork SSN data the IRS currently has available for use in its systemic processes to identify potentially erroneous EITC claims.

> ***Management's Response:*** The IRS agreed with this recommendation and will analyze the available nonwork SSN data to evaluate its usefulness in identifying fraudulent EITC claims.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate the effectiveness of the IRS's efforts to implement integrity provisions intended to reduce EITC, CTC/ACTC, and AOTC improper payments, including those in the PATH Act of 2015.[1]

I. We evaluated IRS efforts to obtain valid issuance dates for SSNs, ITINs,[2] and ATINs.[3]

   A. Evaluated IRS efforts to obtain SSN issuance dates from the SSA.

      1. Determined the status of changes to the Memorandum of Understanding between the IRS and the SSA required to obtain SSN issuance dates.

      2. Determined the time frame for receiving this information from the SSA.

   B. Determined the process for estimating the ITIN issuance date for ITINs issued prior to January 1, 2014, and evaluated the accuracy of the issuance dates.

      1. Evaluated the process for estimating the ITIN issuance date for ITINs issued from Calendar Year 1996 to June 2006 to determine if the process used provided accurate issuance dates for ITINs.

      2. Evaluated the process for estimating the ITIN issuance date for ITINs issued from June 2006 to January 1, 2014, to determine if the process used provided accurate issuance dates for ITINs.

   C. Evaluated efforts to provide the ATIN issuance date.

      1. Determined the source of the issuance date for ATINs.

      2. Evaluated the accuracy of the issuance date of ATINs.

II. Evaluated the IRS's planning efforts to develop processes and procedures for identifying and disallowing retroactive EITC, CTC/ACTC, and AOTC claims for taxpayers with newly issued SSNs, ITINs, and ATINs.

   A. Obtained the IRS's action plan for implementing the retroactive claims provision of the PATH Act.

[1] Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, 129 Stat. 2242 (2015).
[2] An ITIN is issued by the IRS to individuals who are required to have a Taxpayer Identification Number for tax purposes but who do not have or are not eligible to obtain an SSN.
[3] An ATIN is a temporary identification number issued by the IRS for a child in a domestic adoption when the adopting taxpayers do not have or are unable to obtain the child's SSN.

B. Reviewed the specific tax law provisions for disallowing retroactive EITC, CTC/ACTC, and AOTC claims to ensure that they are accurately reflected in all applicable forms, instructions, and publications.

For late-filed original tax returns:

C. Evaluated efforts to incorporate the issuance dates of SSNs, ITINs, and ATINs into IRS systems for processing original prior year tax returns by obtaining copies of Unified Work Requests (computer programming change requests) and evaluating whether they detailed the necessary changes to IRS systems.

D. Determined if EITC, CTC/ACTC, and AOTC claims were allowed on prior year original tax returns for tax periods before the SSN was issued.

1. Identified prior year original tax returns filed during Processing Year[4] 2016 that claimed the EITC, CTC/ACTC, or AOTC.
2. Identified all SSNs used on prior tax returns to claim the EITC, CTC/ACTC, or AOTC, including those for primary taxpayers, secondary taxpayers, and dependents.
3. Obtained issuance dates of SSNs used to file retroactive claims in Calendar Year 2016 from the SSA Office of the Inspector General.
4. Matched tax returns identified in III.F.1 to the IRS Master File[5] to determine if EITC, ACTC, or AOTC claims were allowed in prior tax years. We analyzed Tax Years 2012, 2013, and 2014.[6]
5. Quantified the amounts of EITCs, ACTCs, and AOTCs erroneously allowed.

E. Determined if CTC/ACTC and AOTC claims were allowed on prior year original tax returns for newly issued ITINs and ATINs.

1. Identified prior year original tax returns filed during Processing Year 2016 that claimed the CTC/ACTC or AOTC.
2. Identified all ITINs and ATINs used on prior tax returns to claim the CTC/ACTC or AOTC, including those for primary taxpayers, secondary taxpayers, and dependents.

[4] The calendar year in which the tax return or document is processed by the IRS.
[5] The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
[6] A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

3. Obtained a list with issuance dates of ATINs issued since January 1, 2012, from the IRS.
4. Identified ITINs issued between January 1, 2012, and April 15, 2016, from the ITIN Real-Time System.[7]
5. Matched tax returns identified in III.G.1 to the Master File to determine if CTC/ACTC or AOTC claims were allowed in prior tax years. We analyzed Tax Years 2012, 2013, and 2014.
6. Quantified the amounts of CTCs/ACTCs and AOTCs erroneously allowed.

F. For amended tax returns, we evaluated the sufficiency of established processes for researching the SSNs, ITINs, and ATINs on amended tax returns for the purposes of determining if they were issued timely (before the due date of the original return).

III. Evaluated the IRS's planning efforts to develop processes to verify income reported on tax returns and prevent the automatic release of a tax refund before the income has been verified when the EITC or the CTC/ACTC has been claimed.

A. Obtained the IRS's action plan for implementing the modification of filing dates provision of the PATH Act.

B. Identified the IRS's time frames for updating forms, instructions, and publications and information planned to be provided in the updates.

C. Ensured that the new filing due date was accurately reflected in all applicable forms, publications, and information.

D. Evaluated the IRS's progress in ensuring that Forms W-2, *Wage and Tax Statement*, and Forms 1099-MISC, *Miscellaneous Income*, information was available before February 15 to ensure that income was verified on tax returns claiming the EITC or CTC/ACTC.

E. Evaluated the IRS's process for matching income claimed on the tax return to Forms W-2 and Forms 1099-MISC.

F. Determined the status of developing a systemic freeze code or indicator to hold refunds with EITC or ACTC claims until February 15 for the income match and evaluate the effectiveness of the freeze to ensure that income is verified before the refund is released.

[7] A web-based application used by ITIN tax examiners to process, assign, and record applicant submissions from people with tax consequences who do not have and are not eligible for an SSN. Tax examiners review all applications and attached documents, then input the information into the ITIN Real-Time System.

IV. Evaluated IRS planning efforts to develop processes and procedures to identify paid preparers who do not submit a Form 8867, *Paid Preparer's Earned Income Checklist*, for returns claiming the CTC/ACTC or the AOTC.

A. Obtained the IRS's action plan for expanding the paid preparer due diligence requirements and the associated $510 penalty for failure to comply to cover returns claiming the CTC/ACTC or AOTC.

B. Reviewed tax forms and publications to ensure that tax preparers are informed that due diligence requirements have been expanded to include CTC/ACTC and AOTC claims.

C. Determined how the IRS educated tax return preparers regarding the due diligence requirements for the CTC/ACTC and AOTC and evaluated the adequacy of the IRS's efforts.

D. Evaluated the revised Form 8867 to ensure that all eligibility requirements for the EITC, CTC/ACTC, and AOTC were included in the form and the questions as to eligibility are accurate.

E. Determined what plans were in place to identify preparers at the time tax returns are filed who did not file Form 8867 as required.

V. Evaluated IRS planning efforts to develop processes and procedures to bar individuals from claiming future CTCs/ACTCs and AOTCs when the taxpayer fraudulently claims the credit or recklessly or intentionally disregards the rules.

A. Obtained the IRS's action plan for the requirement to bar individuals from claiming future CTCs/ACTCs and AOTCs.

B. Evaluated planned actions to ensure that planned actions will effectively identify CTC/ACTC and AOTC claimants subject to a ban as well as ensure that banned individuals do not receive the credit in subsequent years during which the ban is active.

VI. Determined if the IRS has effective processes and procedures in place to prevent refunds of the EITC to individuals claiming the credit using a not-valid-for-work (nonwork) SSN.

A. Reviewed the Internal Revenue Manual, policy, documentations, *etc*., to identify the IRS's process for preventing taxpayers with nonwork SSNs from receiving the EITC.

B. Analyzed the NAP file on the Data Center Warehouse to identify nonwork SSNs.

C. Matched the SSNs to Master File to determine if the EITC was allowed for nonwork SSNs.

D. Quantified the amount of EITCs paid to taxpayers who claimed the credit using a nonwork SSN.

E. Researched EITC cases from the National Research Project for which the EITC was claimed using a nonwork SSN on the Correspondence Examination Automation Support System[8] to determine if the claim was denied because of the SSN type.

Data validation methodology

During this review, we relied on data received from the IRS for ATINs assigned beginning January 1, 2012, the ITIN Real-Time System data, and the IRS's 2014 NAP data provided by the TIGTA Office of Investigations' Strategic Data Services. We also obtained extracts from the IRS's Individual Master File,[9] the IRTF[10] databases for Processing Year 2016, and the NAP data for Processing Year 2015 that were available on the TIGTA's Data Center Warehouse.[11] Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected random samples of each extract and verified that the data in the extracts were the same as the data captured in the IRS's Integrated Data Retrieval System[12] and the ITIN Real-Time System. We also performed analysis to ensure the validity and reasonableness of our data such as ranges of dollar values, transaction dates, and tax periods. Based on the results of our testing, we believe that the data used in our review were reliable.

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: controls over the IRS processing of retroactive tax returns with newly issued Taxpayer Identification Numbers (ATINs, ITINs, and SSNs) claiming refundable credits and the IRS process for capturing the correct issuance dates for Taxpayer Identification Numbers. We evaluated these controls by interviewing IRS management, performing analysis of issuance dates of ITINs from the Real-Time System, issuance dates of SSNs from the NAP, issuance dates of ATINs from the Integrated Data Retrieval System, and individual tax return data from the IRTF located on the TIGTA Data Center Warehouse.

[8] Database used in the examination process to compute proposed tax adjustments, interest, and penalties.
[9] The Individual Master File is an IRS database that maintains transactions or records of individual tax accounts.
[10] An IRS database containing transcribed tax returns for individuals that includes most forms and schedules.
[11] A TIGTA repository of IRS data.
[12] IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

Appendix II

Major Contributors to This Report

Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services)
Deann L. Baiza, Director
Kathleen A. Hughes, Audit Manager
Linda M. Valentine, Lead Auditor
Tracy M. Hernandez, Senior Auditor
Lance J. Welling, Information Technology Specialist (Data Analytics)
Nathan J. Cabello, Auditor

Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Services and Enforcement
Commissioner, Wage and Investment Division
Director, Return Integrity and Compliance Services, Wage and Investment Division
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:

- Increased Revenue – Potential; 4,406 taxpayers who received more than $3.2 million in CTCs on their Tax Year 2014 tax return using SSNs, ITINs, and ATINs that were not issued by the due date of the tax return (see page 5).

Methodology Used to Measure the Reported Benefit:

We identified 286,213 Tax Year 2014 tax returns that claimed the CTC in Calendar Year 2016 and determined the SSNs, ITINs, and ATINs used as the primary taxpayer, secondary taxpayer, or dependents to claim the CTC by analyzing the IRS's IRTF. We identified the issuance date of the SSNs from the IRS's NAP. We identified the issuance date of ITINs from the IRS's ITIN Real-Time System. We identified the issuance date of ATINs from the IRS's ATIN database. We analyzed the issuance dates to determine if the SSNs, ITINs, or ATINs used as the primary taxpayer, secondary taxpayer, or dependents to claim the CTC were issued by the due date of the return. We identified the SSNs, ITINs, and ATINs that were not issued by the due date of the tax return.

If the primary or secondary taxpayer SSN or ITIN was not issued by the due date of the return, no CTC should be paid on the tax return. For those returns on which the dependent SSN, ITIN, or ATIN was not issued by the due date of the return, we computed the amount of CTC associated with that dependent. We determined that $3,247,038 in CTCs was paid to 4,452 individuals using SSNs, ITINs, or ATINs that were not issued by the due date of the Tax Year 2014 tax return. We determined that 46 credits totaling $41,340 did not refund to the taxpayer, so we eliminated these from our outcome.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; 12,853 taxpayers who received almost $16.8 million in ACTCs on their Tax Year 2014 tax return using SSNs and ITINs that were not issued by the due date of the tax return (see page 5).

Methodology Used to Measure the Reported Benefit:

We identified 301,837 Tax Year 2014 tax returns that claimed the ACTC in Calendar Year 2016 and determined the SSNs, ITINs, and ATINs used as the primary taxpayer, secondary taxpayer, or dependents to claim the ACTC by analyzing the IRS's IRTF. We identified the issuance date of the SSNs from the IRS's NAP. We identified the issuance date of ITINs from the IRS's ITIN Real-Time System. We identified the issuance date of ATINs from the IRS's ATIN database. We analyzed the issuance dates to determine if the SSNs, ITINs, or ATINs used as the primary taxpayer, secondary taxpayer, or dependents to claim the ACTC were issued by the due date of the return. We identified the SSNs, ITINs, and ATINs that were not issued by the due date of the tax return.

If the primary or secondary taxpayer SSN or ITIN was not issued by the due date of the return, no ACTC should be paid on the tax return. For those returns on which a dependent SSN, ITIN, or ATIN was not issued by the due date of the return, we computed the amount of ACTC associated with that dependent. We determined that $17,616,427 in ACTCs was paid to 13,361 individuals using SSNs, ITINs, or ATINs that were not issued by the due date of the Tax Year 2014 tax return. We determined that 508 credits totaling $827,398 did not refund to the taxpayer, so we eliminated these from our outcome.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; 5,134 taxpayers who received almost $14.4 million in EITCs on their Tax Year 2014 tax return using SSNs that were not issued by the due date of the tax return (see page 5).

Methodology Used to Measure the Reported Benefit:

We identified 444,387 Tax Year 2014 tax returns that claimed the EITC in Calendar Year 2016 and determined the SSNs, ITINs, and ATINs used as the primary taxpayer, secondary taxpayer, or dependents to claim the EITC by analyzing the IRS's IRTF. We found that no ATINs were used to claim the EITC. We identified the issuance date of the SSNs from the IRS's NAP. We identified the issuance date of ITINs from the IRS's ITIN Real-Time System. We analyzed the issuance dates to determine if the SSNs or ITINs used as the primary taxpayer, secondary taxpayer, or dependents to claim the EITC were issued by the due date of the return. We identified the SSNs and ITINs that were not issued by the due date of the tax return.

If the primary or secondary taxpayer SSN was not issued by the due date of the return or the primary or secondary taxpayer had an ITIN, no EITC should be paid on the tax return. For those returns on which the dependent SSN was not issued by the due date of the return or the dependent had an ITIN or ATIN, we computed the amount of EITC associated with that dependent. We determined that $14,925,087 in EITCs was paid to 5,309 individuals using SSNs or ITINs that were not issued by the due date of the Tax Year 2014 tax return. We determined that 175 credits totaling $545,107 did not refund to the taxpayer, so we eliminated these from our outcome.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Actual; 492 taxpayers who received $443,244 in AOTCs on their Tax Year 2014 tax return using SSNs and ITINs that were not issued by the due date of the tax return (see page 5).

Methodology Used to Measure the Reported Benefit:

We identified 90,332 Tax Year 2014 tax returns that claimed the AOTC in Calendar Year 2016 and determined the SSNs, ITINs, and ATINs used as the primary taxpayer, secondary taxpayer, or dependents to claim the AOTC by analyzing the IRS's IRTF. We determined that no ATINs were used to claim the credit. We identified the issuance date of the SSNs from the IRS's NAP. We identified the issuance date of ITINs from the IRS's ITIN Real-Time System. We analyzed the issuance dates to determine if the SSNs or ITINs used as the primary taxpayer, secondary taxpayer, or dependents to claim the AOTC were issued by the due date of the return. We identified the SSNs and ITINs that were not issued by the due date of the tax return.

If the primary or secondary taxpayer SSN or ITIN were not issued by the due date of the return, no AOTC should be paid on the tax return. For those returns on which the dependent SSN, ITIN, or ATIN was not issued by the due date of the return, we computed the amount of AOTC associated with that dependent. We determined that $482,407 in AOTCs was paid to 533 individuals using SSNs or ITINs that were not issued by the due date of the Tax Year 2014 tax return. We determined that 41 credits totaling $39,163 did not refund to the taxpayer, so we eliminated these from our outcome.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; 49,310 taxpayers who filed using an SSN with Citizenship Code C who received almost $117.7 million in EITCs on their Tax Year 2014 tax return (see page 12).

Methodology Used to Measure the Reported Benefit:

We analyzed the NAP to identify SSNs with Citizenship Code C. We identified 2,598,289 SSNs with Citizenship Code C. We matched these SSNs to the IRS's Individual Master File for Tax Year 2014 to identify the accounts associated with these SSNs that were paid the EITC. We determined that $117,652,432 was paid to 49,310 individuals who were issued a nonwork SSN by the SSA.

Appendix V

Summary of TIGTA Earned Income Tax Credit and Additional Child Tax Credit Audit Concerns

Issue Date / Ref. No. / Title	EITC/ACTC Issues	Related Recommendations and Corrective Actions
March 2, 2012 2012-40-028, *The Internal Revenue Service Is Not in Compliance With All Improper Payments Elimination and Recovery Act Requirements*	The IRS estimated that in Fiscal Year 2011, 21 to 26 percent of EITC payments were issued improperly. This equates to between $13.7 billion and $16.7 billion in improper EITC payments. The IRS does not have annual EITC improper payment reduction targets in place, which is not in compliance with the Improper Payments Elimination and Recovery Act.[1]	TIGTA made no recommendations in the report.
March 30, 2012 2012-40-036, *Interim Results of the 2012 Filing Season*	New tax return preparer due diligence requirements were put into place to promote accurate EITC claims, and the IRS estimated that between 21 and 26 percent of EITC claims have errors. As of March 8, 2012, the IRS identified that 11.7 million tax returns claiming EITCs totaling $32 billion were prepared by tax return preparers. Over 260,000 returns (2 percent) totaling almost $790.2 million were submitted without a required Form 8867, *Paid Preparer's Earned Income Credit Checklist.*	TIGTA made no recommendations in the report.
September 7, 2012 2012-40-105, *Expansion of Controls Over Refundable Credits Could Help Reduce the Billions of Dollars of Improperly Paid Claims*	Between Tax Years 2006 and 2009, taxpayers claimed almost $470 billion in refundable credits. Due to post-refund examinations, taxpayers were required to repay more than an estimated $2.3 billion in erroneous credits. The IRS could have saved $108 million by reviewing claims made by taxpayers who were previously disallowed from receiving the credit in prior years.	The IRS should: - Implement an account indicator to identify taxpayers who claim erroneous refundable credits. Taxpayers with such an indicator should have to provide documentation before a claim for a refundable credit is processed. The

[1] Pub. L. 111-204.

Issue Date / Ref. No. / Title	EITC/ACTC Issues	Related Recommendations and Corrective Actions
	TIGTA estimated that when the IRS freezes a return for review of a questionable EITC but releases a related ACTC, the ACTC will later be disallowed 67 percent of the time. The IRS could have prevented approximately $419 million in erroneous ACTC refunds if those claims were reviewed with the EITC claims.	indicator would apply for a specific time frame. The IRS agreed. - Freeze and verify claims for the ACTC on all returns for which the EITC is frozen for verification. The IRS agreed. - Seek legislation to expand the EITC due diligence requirements and penalties to include the ACTC. The IRS agreed.
September 26, 2012 2012-40-119, *The Majority of Individual Tax Returns Were Processed Timely, but Not All Tax Credits Were Processed Correctly During the 2012 Filing Season*	The IRS reported that, as of May 3, 2012, it processed 12.9 million tax returns with EITC claims that were prepared by paid tax return preparers. Almost 534,000 (4 percent) tax returns with EITC claims totaling more than $1.5 billion were filed without the required Form 8867 The IRS instituted the penalty increase for noncompliance with the due diligence requirements in addition to developing a process to identify tax return preparers who failed to attach required Forms 8867 to filed EITC claims. During the 2012 Filing Season, the IRS assigned an indicator to taxpayers' accounts if a required Form 8867 was not attached to a Tax Year 2011 tax return claiming the EITC. The IRS did not assess the EITC due diligence penalty on noncompliant tax return preparers.	TIGTA made no recommendations regarding the EITC.
January 31, 2013 2013-40-015, *Improper Payments Elimination and Recovery Act Risk Assessments of Revenue Programs Are Unreliable*	TIGTA's analysis of the questionnaire for improper payments found that the IRS's review process was informal regarding the revenue program fund risk and did not adhere to required guidelines for performing the assessment, which may lead to an inaccurate assessment of the risk of improper payments such as erroneous or fraudulent EITC and ACTC claims.	The IRS should: - Better identify the programs that need to be assessed for improper payments risk and refine the questionnaires to ensure that the questions reflect the risk of tax refund payments. The IRS agreed. - Establish a formal process for assigning responsibility for the completion of the annual risk

Issue Date / Ref. No. / Title	EITC/ACTC Issues	Related Recommendations and Corrective Actions
	Other issues, such as insufficient verification of identity or income, can pose a risk for improper payments. Prior TIGTA reports show that the IRS has paid $5.2 billion in potentially fraudulent tax returns due to identity theft. Also, TIGTA found that the verification process of ITIN applications was deficient. More than 481,500 tax returns associated with these applications had claims for the ACTC totaling more than $916 million.	assessments for the selected IRS programs. The IRS agreed. - Develop a process to ensure that the IRS has a team completing the risk assessment. This process should ensure that the team members collectively possess knowledge of all aspects of the IRS program being reviewed, include the type of documentation to be used to complete the assessment, and ensure that the documentation is maintained for five years. The IRS agreed.
February 25, 2013 2013-40-024, *The Internal Revenue Service Was Not in Compliance With All Requirements of the Improper Payments Elimination and Recovery Act for Fiscal Year 2012*	TIGTA's analysis showed that the IRS is not in compliance with all Improper Payments Elimination and Recovery Act requirements. Specifically, the IRS has not established annual EITC improper payment reduction targets and has not reported an improper payment rate of less than 10 percent.	TIGTA made no recommendations in the report.
March 29, 2013 2013-40-035, *Interim Results of the 2013 Filing Season*	Many paid tax return preparers continue to be noncompliant with Form 8867 requirements. The IRS estimates between $11.6 billion and $13.6 billion in EITC claims are paid in error. Tax return preparers may be assessed a $500 penalty for each tax return filed without a Form 8867 attached to the return. As of March 7, 2013, TIGTA identified 80,585 paid tax return preparers filing 612,622 tax returns claiming nearly $1.9 billion in EITCs without the required Form 8867 attached to the tax return. This equates to more than $306 million in penalties that can be assessed by the IRS.	TIGTA made no recommendations in the report.

Issue Date / Ref. No. / Title	EITC/ACTC Issues	Related Recommendations and Corrective Actions
August 28, 2013 2013-40-084, *The Internal Revenue Service Is Not in Compliance With Executive Order 13520 to Reduce Improper Payments*	The IRS is not in compliance with the requirements of Executive Order 13520,[2] and the IRS has not established annual improper payment reduction targets as required. The IRS also is not compliant with the quarterly reporting requirement for high-dollar improper EITC payments (payments totaling more than $5,000). TIGTA reviewed a statistically valid sample of 60,793 Tax Year 2009 EITC claims for more than $5,000 for which the IRS examined and adjusted the EITC. TIGTA estimates that more than 10,400 EITC claims totaling more than $52.8 million met the criteria for the quarterly reporting to TIGTA.	The IRS should develop processes to identify high-dollar improper EITC payments and report the information to TIGTA as required by Executive Order 13520. The IRS agreed.
September 26, 2013 2013-40-123, *The Law Which Penalizes Erroneous Refund and Credit Claims Was Not Properly Implemented*	The EITC is not subject to the erroneous claim for a refund or credit penalty. Congress exempted the EITC because the IRS can disallow the credit for the next two subsequent tax years if the error is due to reckless or intentional disregard and up to 10 subsequent years if the error is due to fraud.	TIGTA made no recommendations regarding the EITC.
September 30, 2013 2013-40-124, *Late Legislation Delayed the Filing of Tax Returns and Issuance of Refunds for the 2013 Filing Season*	TIGTA's analysis of more than 14.4 million tax returns with an EITC claim that were prepared by a paid tax return preparer as of May 2, 2013, identified 708,298 (5 percent) tax returns claiming more than $2 billion in EITCs were missing the required Form 8867 or the Form 8867 was incomplete. These 708,298 tax returns were prepared by 122,133 tax return preparers who continue to not comply with EITC due diligence requirements.	The IRS should ensure that the EITC due diligence penalty is assessed against tax return preparers who did not comply with the requirement to attach a completed Form 8867 to tax returns with a claim for the EITC. The IRS agreed.
March 28, 2014 2014-40-029, *Interim Results of the 2014 Filing Season*	TIGTA identified that some paid tax return preparers continue to be noncompliant with the EITC due diligence requirements, but the number has decreased substantially when compared to the same period during the 2013 Filing Season.	TIGTA made no recommendations in the report.

[2] Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs* (Nov. 2009).

Issue Date / Ref. No. / Title	EITC/ACTC Issues	Related Recommendations and Corrective Actions
March 31, 2014 2014-40-027, *The Internal Revenue Service Fiscal Year 2013 Improper Payment Reporting Continues to Not Comply With the Improper Payments Elimination and Recovery Act*	For the third consecutive year, the IRS did not publish annual reduction targets or report an improper payment rate of less than 10 percent for the EITC. IRS management has indicated that the IRS and the Department of the Treasury are in discussions with the Office of Management and Budget to obtain approval to develop supplemental measures that are appropriate to determine the impact of EITC compliance. Per the Office of Management and Budget, the EITC remains the only revenue program fund to be considered at high risk for improper payments. TIGTA stated that the risk assessment may not provide a valid assessment of the improper payments.	TIGTA made no recommendations in the report.
September 19, 2014 2014-40-077, *Key Tax Provisions Were Implemented Correctly for the 2014 Filing Season*	The number of paid tax return preparers who prepared tax returns claiming the EITC with a missing or incomplete Form 8867 has declined significantly when compared to Processing Year 2012. As of May 3, 2014, TIGTA identified 29,623 paid tax return preparers filing 75,346 tax returns claiming nearly $156.3 million in EITCs without a completed Form 8867. This equates to nearly $37.7 million in penalties that the IRS can assess.	The IRS should ensure that EITC due diligence penalties are assessed on all paid tax return preparers who do not provide a completed Form 8867 when filing a tax return claiming the EITC. The IRS partially agreed. IRS management disagreed to pursue due diligence penalties on paid tax return preparers who file a Form 8867 that is incomplete.
September 29, 2014 2014-40-093, *Existing Compliance Processes Will Not Reduce the Billions of Dollars in Improper Earned Income Tax Credit and Additional Child Tax Credit Payments*	Processes have been developed to identify improper EITC payments, but the IRS has not developed the same processes to quantify or identify improper ACTC payments. TIGTA estimates that the potential ACTC improper payment rate for Fiscal Year 2013 is between 25.2 percent and 30.5 percent, with potential ACTC improper payments totaling between $5.9 billion and $7.1 billion. IRS enforcement data show that the root causes of improper ACTC payments are similar to those of the EITC.	The IRS should: - Ensure that the results of the ACTC Improper Payment Risk Assessment accurately reflect the high risk associated with ACTC payments and provide a reliable estimate of improper payments. The IRS disagreed. - Identify the root causes of the improper ACTC payments to determine if tools and resources are available to address erroneous ACTC payments, and establish a

Issue Date / Ref. No. / Title	EITC/ACTC Issues	Related Recommendations and Corrective Actions
		plan to reduce the erroneous payments. The IRS disagreed. - Contract with the Department of Health and Human Services to obtain a complete copy of the National Directory of New Hires database for use during tax return processing to systemically identify the use of unsupported wages on tax returns to erroneously claim the EITC. The IRS disagreed. - Work with the Assistant Secretary of the Treasury for Tax Policy to consider a legislative proposal to obtain extended National Directory of New Hires authority to systemically verify claims for other income-based refundable credits (*e.g.*, ACTC) based on the database's employment data. The IRS agreed.
December 29, 2014 2015-40-009, *The Internal Revenue Service Is Working Toward Compliance With Executive Order 13520 Reporting Requirements*	The IRS is not in compliance with certain requirements of Executive Order 13520 for Fiscal Year 2013. The IRS has not established annual improper payment reduction targets as required. Nonetheless, the IRS has obtained approval to establish and report supplemental measures in lieu of annual reduction targets. The IRS is currently not in compliance with quarterly reporting requirements for high-dollars improper EITC payments for Fiscal Year 2013. However, new revisions to the quarterly reporting requirements make it unlikely that the IRS would be required to report any quarterly high-dollar payments for Fiscal Years 2014 forward.	TIGTA made no recommendations in the report.

Issue Date / Ref. No. / Title	EITC/ACTC Issues	Related Recommendations and Corrective Actions
March 31, 2015 2015-40-032, *Interim Results of the 2015 Filing Season*	The number of paid tax return preparers who file tax returns claiming the EITC without a completed Form 8867 continues to decline. TIGTA showed that there were 6,858 paid tax return preparers who had filed 12,375 tax returns claiming the EITC without a completed Form 8867.	TIGTA made no recommendations in the report.
April 27, 2015 2015-40-044, *Assessment of Internal Revenue Service Compliance With the Improper Payment Reporting Requirements in Fiscal Year 2014*	The IRS provided all required improper payment information for inclusion in the Department of the Treasury Agency Financial Report Fiscal Year 2014 with the exception of reporting an overall EITC improper payments rate below 10 percent. The IRS also completed risk assessments of the 23 program fund groups. The risk assessment process still does not provide a valid assessment of improper payments in IRS programs. For example, the IRS has continually rated the risk of the ACTC as low, while TIGTA shows an ACTC improper payment rate similar to that of the EITC, which is high. On March 20, 2014, legislation was issued which clarified that all refundable credits are subject to Improper Payments Elimination and Recovery Act requirements.	TIGTA made no recommendations in the report.
August 31, 2015 2015-40-080, *Results of the 2015 Filing Season*	As of May 2015, TIGTA showed 29,952 paid tax return preparers who filed 62,134 tax returns claiming the EITC without a completed Form 8867. The IRS issued penalty letters to 225 tax return preparers who received a warning letter in the 2013 Filing Season and who had filed 10 or more tax returns claiming the EITC during the 2014 Filing Season. These 225 tax return preparers prepared 5,729 tax returns claiming more than $18.7 million in EITCs. Proposed penalties for these 225 preparers total nearly $2.9 million. The tax return preparers had 30 calendar days to appeal the penalty. According to the IRS, as of May 18, 2015, only $151,500 in penalties had been assessed.	TIGTA made no recommendations regarding the EITC on this report.

Issue Date / Ref. No. / Title	EITC/ACTC Issues	Related Recommendations and Corrective Actions
	Analysis of EITC claims filed during the 2012 through 2015 Filing Seasons identified that claims filed with a Form 8867 have fewer processing errors. TIGTA found that as of May 7, 2015, the IRS identified processing errors on 6.8 percent of EITC claims that were filed by a preparer without a Form 8867 compared to only 0.2 percent of EITC claimed filed with a Form 8867.	
March 31, 2016 2016-40-034, *Interim Results of the 2016 Filing Season*	Enacted on December 18, 2015, the Consolidated Appropriations Act of 2016[3] was passed. It prevents a retroactive claim for the EITC, which prevents a taxpayer who originally filed a tax return with an ITIN from filing an amended return with an SSN to receive the credit. On January 14, 2016, TIGTA notified the IRS that a review of the EITC Tax Preparer Toolkit on IRS.gov was not updated to show the increased EITC due diligence penalty amount. On January 25, 2016, TIGTA notified the IRS that the link in the EITC pages on IRS.gov redirected the user to outdated information.	TIGTA made no recommendations in the report.
April 27, 2016 2016-40-036, *Without Expanded Error Correction Authority, Billions of Dollars in Identified Potentially Erroneous Earned Income Credit Claims Will Continue to Go Unaddressed Each Year*	The IRS provided all required improper payment information for Fiscal Year 2015, with a continued exception of not reporting an overall EITC improper payment rate of less than 10 percent. The Consolidated Appropriations Act of 2016 provides the IRS with additional tools to reduce EITC improper payments. However, it did not expand the IRS's authority to systemically correct erroneous claims identified. Without this authority, the IRS continues to be unable to address the majority of potentially erroneous EITC claims. At this time, the IRS has to audit a potentially erroneous EITC claim, and the number of audits is limited by resources. As a result,	The IRS should use a revised ACTC improper payment risk assessment process that includes a quantitative assessment for the ACTC improper payment risk using available National Research Project and enforcement data. The IRS agreed.

[3] Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, 129 Stat. 2242 (2015).

Issue Date / Ref. No. / Title	EITC/ACTC Issues	Related Recommendations and Corrective Actions
	billions of dollars in potentially erroneous claims go unaddressed each year. The IRS completed risk assessments of the 22 program fund groups identified by the Treasury; the risk assessment process still does not provide a valid assessment of refundable credit improper payments. The IRS continued to rate the risk of improper payments associated with the ACTC as low, while TIGTA estimated that the potential ACTC for Fiscal Year 2015 is 24.2 percent, with potentially erroneous payments totaling $5.7 billion.	

Source: Prior TIGTA audit reports.

Appendix VI

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

JUL 0 5 2017

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Processes Do Not Maximize the Use of Third-Party Income Documents to Identify Potentially Improper Refundable Credit Claims (Audit # 201640031)

Thank you for the opportunity to review the subject draft report and provide comments. The passage of the Protecting Americans from Tax Hikes (PATH) Act[1] on December 18, 2015 introduced some very significant legislative changes that are helping the IRS reduce improper payments of refundable credits, whether through unintentional error or by intentionally fraudulent claims for refund. The provisions of the PATH Act have also been very helpful in improving our ability to identify and stop suspected refund fraud related to identity theft. Provisions of the legislation denying retroactively-claimed refundable credits for tax years prior to the year taxpayers or their dependents received valid Taxpayer Identification Numbers presented implementation challenges. As noted, there was not sufficient time to reprogram our systems for the 2016 filing season, which started on January 19, 2016, one month after the passage of the PATH Act; however, the opportunity exists to address any erroneously allowed retroactive claims by our Compliance functions.

When the PATH Act was enacted, we carefully reviewed the law and determined where processing changes, additional data, and programming changes were needed. We worked with the Social Security Administration (SSA) on revising our data sharing agreement to include the Social Security Number (SSN) issuance date needed for determining credit eligibility. We also worked with the SSA in preparing for the expedited receipt of Form W-2, *Wage and Tax Statement*, information for the 2017 filing season. The Form W-2 data was used by the Return Review Program's (RRP) Systemic Verification process, which is a tool used for validating the authenticity of returns at the time of filing.

[1] Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, 129 Stat. 2242 (2015).

A significant provision of the PATH Act required the IRS to hold refunds until February 15, 2017, if any portion was attributable to an Earned Income Tax Credit (EITC) or Additional Child Tax Credit claim. Under this authority, over $51 billion dollars claimed on 10.3 million returns was held until February 15, 2017. During this time, the RRP continued to analyze and evaluate Form W-2 data as it arrived from the SSA and became available to our processing systems. This permitted a continuous systemic review process that enabled us to verify income with the most recently available third-party data and, when appropriate, direct a previously-processed return with a not-yet-paid refund for additional review.

The PATH Act did not expand available treatment streams, either through correctable error authority or additional funding for pre-refund verification and compliance resources. For those returns found to be questionable, we reviewed and addressed them through our suite of pre-refund treatment streams. This includes the Taxpayer Protection Program, which addresses those returns with a suspicion of identity theft; the Integrity and Verification Operations, which protects revenue by identifying potentially false returns and verifying as-reported wage and withholding accuracy; and Correspondence Examination, which conducts pre-refund audits of questionable refundable credit claims. We agree with the proposed recommendations and will act to implement them.

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 Michael Beebe, Director, Return Integrity and Compliance Services, Wage and Investment Division, at (470) 639-3250.

Attachment

Attachment

Recommendation

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should take steps to recover the more than $34.8 million in EITC, CTC, ACTC, and AOTC erroneously paid to the 15,744 filers with retroactive claims that we identified.

CORRECTIVE ACTION

We agree with this recommendation and will evaluate this population for inclusion in the appropriate post-refund treatment program.

IMPLEMENTATION DATE

June 15, 2018

RESPONSIBLE OFFICIAL

Director, 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.

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 2

Continue to evaluate opportunities to use the Form 1099-MISC in conjunction with the Form W-2 to systemically ****2************for all EITC and ACTC claims****2****.

CORRECTIVE ACTION

We agree with this recommendation and will explore options to improve the timeliness of the Form 1099-MISC, Miscellaneous Income and Form W-2, Wage and Tax Statement processes.

IMPLEMENTATION DATE

February 15, 2018

RESPONSIBLE OFFICIAL

Director, 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.

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RECOMMENDATION 3: For the purpose of informing the Congress on the benefit of the early availability of third-party documents, conduct a study to quantify the number of EITC and ACTC claims that the IRS identifies with unreported, underreported, and overreported income. Include information as to the number and amount of identified claims the IRS was able to address using existing authority (*i.e.*, through an audit) in comparison to the total number and amount of claims identified.

CORRECTIVE ACTION
We agree with this recommendation and will commit to reporting the number of returns requesting Earned Income Tax Credit (EITC) and/or Additional Child Tax Credit (ACTC) that the IRS identifies with unreported, underreported, and overreported income based on third party reporting.

IMPLEMENTATION DATE
September 15, 2018

RESPONSIBLE OFFICIAL
Director, 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 4
Evaluate the use of nonwork SSN data the IRS currently has available for use in its systemic processes used to identify potentially erroneous EITC claims.

CORRECTIVE ACTION
We agree with this recommendation and will analyze the available non-work SSN data to evaluate its usefulness in identifying potentially fraudulent EITC claims

IMPLEMENTATION DATE
September 15, 2018

RESPONSIBLE OFFICIAL
Director, 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.