Results of the 2019 Filing Season

January 22, 2020

Reference Number: 2020-44-007

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RESULTS OF THE 2019 FILING SEASON

Highlights

Final Report issued on January 22, 2020

Highlights of Reference Number: 2020-44-007 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

The filing season, defined as the period from January through mid-April, is critical for the IRS because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific laws or filing procedures. As of May 3, 2019, the IRS received more than 141 million individual income tax returns (with 90.4 percent electronically filed (e-filed)) and issued more than 100.4 million refunds totaling over $274 billion.

WHY TIGTA DID THE AUDIT

The IRS faced a number of challenges for the 2019 Filing Season, including implementation of the Tax Cuts and Jobs Act of 2017, a redesign of Form 1040, *U.S. Individual Income Tax Return*, and the partial Government shutdown that lasted 35 days (beginning on December 22, 2018, and ending on January 25, 2019). The objective of this review was to evaluate whether the IRS timely and accurately processed individual paper and e-filed tax returns during the 2019 Filing Season.

WHAT TIGTA FOUND

In preparation for the 2019 Filing Season, the IRS updated its processes and procedures to address the Tax Cuts and Jobs Act and changes made to Form 1040. The changes included creating or updating 542 tax products, updating 128 information technology systems, developing and issuing guidance documents, and updating fraud detection systems. Despite the partial Government shutdown, the IRS began accepting and processing individual tax returns on January 28, 2019.

TIGTA's review of 176 business rules and 34 error codes updated as a result of the Tax Cuts and Jobs Act and the Form 1040 redesign found that nine business rules (5.1 percent) and two error codes (5.9 percent) contained programming errors. These errors resulted in 28,411 e-filed tax returns being incorrectly rejected, 149 e-filed tax returns not being rejected when they should have been, and 222,154 e-filed returns for which processing was incorrectly delayed.

As of April 10, 2019, the IRS estimated that it received 1.4 million e-filed tax returns which included a claim for relief from the estimated tax penalty. In addition, on August 14, 2019, the IRS announced that it would automatically waive the penalty for more than 400,000 eligible taxpayers who had filed their tax returns but did not claim a waiver. The IRS plans to perform the same analysis later in the calendar year to address any late-filed tax returns.

The IRS also updated Form 8867, *Paid Preparer's Due Diligence Checklist*, to include the requirements for returns filing with the Head of Household status and returns with the Credit for Other Dependents claims. In addition, the IRS has established processes to identify tax returns for which Form 8867 is not attached when required.

Finally, TIGTA found that processes and procedures are needed to detect potential false deduction claims for unreimbursed employee business expenses, moving expenses, and casualty and theft losses.

WHAT TIGTA RECOMMENDED

TIGTA made 15 recommendations to the Commissioner, Wage and Investment Division. The recommendations include ensuring that business rules properly identify potentially erroneous tax returns and establishing processes to identify potential false moving expense deduction and casualty and theft loss deduction claims at the time tax returns are filed.

IRS management agreed with all but two of the recommendations and has taken or plans to take corrective actions. Management partially agreed with the remaining two recommendations.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

January 22, 2020

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

Nancy LaManna

FROM: (for) Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Results of the 2019 Filing Season (Audit # 201940402)

This report presents the results of our review to evaluate whether the Internal Revenue Service timely and accurately processed individual paper and electronically filed tax returns during the 2019 Filing Season. This audit was included in our Fiscal Year 2019 Annual Audit Plan and addresses the major management challenge of Implementing the Tax Cuts and Jobs Act and Other Tax Law Changes.

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

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).

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Appendices

Abbreviations

ACTC	Additional Child Tax Credit
AGI	Adjusted Gross Income
AOTC	American Opportunity Tax Credit
APTC	Advance Premium Tax Credit
ATIN	Adoption Taxpayer Identification Number
CTC	Child Tax Credit
e-file(d); e-filing	Electronically File(d); Electronic Filing
EFDS	Electronic Fraud Detection System
EIN	Employer Identification Number
EITC	Earned Income Tax Credit
FEMA	Federal Emergency Management Agency
IMF	Individual Master File
IRS	Internal Revenue Service
IRTF	Individual Return Transaction File
ITIN	Individual Taxpayer Identification Number
PATH Act	Protecting Americans From Tax Hikes Act of 2015
PTC	Premium Tax Credit
QBI	Qualified Business Income
RRP	Return Review Program
SSA	Social Security Administration
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year

Background

The annual tax return filing season[1] is a critical time for the Internal Revenue Service (IRS) because this is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. One of the continuing challenges the IRS faces each year in processing tax returns is the implementation of new tax law changes as well as changes resulting from expired tax provisions. Before the filing season begins, the IRS must identify the tax law and administrative changes affecting the upcoming filing season. Once identified, the IRS must revise the various tax forms, instructions, and publications. In addition, the IRS must reprogram computer systems to ensure that tax returns are accurately processed based on changes in the tax law. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, or result in incorrect taxpayer notices. The IRS must also update its public website in order to provide online assistance to millions of taxpayers. Finally, the IRS must hire and train seasonal employees needed to support the filing season. The extensive actions that the IRS must undertake to implement tax legislation are particularly challenging when tax law changes are numerous or enacted close to or after the start of the annual filing season.

Tax law changes affecting the 2019 Filing Season

Tax Cuts and Jobs Act of 2017[2] **–** Enacted December 22, 2017, the majority of the changes enacted in the Tax Cuts and Jobs Act are effective beginning in Tax Year (TY) 2018. The Tax Cuts and Jobs Act contains 119 tax provisions administered by the IRS that affect both domestic and international taxes, and it is the first major tax reform legislation in more than 30 years. Some of the more notable changes affecting individual taxpayers in the 2019 Filing Season are provisions that repealed the personal exemption, increased the Child Tax Credit (CTC), created a new Credit for Other Dependents, increased the standard deduction, and modified itemized deductions.

Based on our risk assessment,[3] we reviewed the IRS's implementation of 26 of the 119 Tax Cuts and Jobs Act tax provisions. Those 26 provisions require the development of new tax forms, affect a large number of taxpayers, or involve a significant amount of dollars. The 26 provisions we selected affect tax information reported on Form 1040, *U.S. Individual Income Tax Return*; Form 1041, *U.S. Income Tax Return for Estates and Trusts*; Form 1065, *U.S. Return of Partnership Income*; Form 1120, *U.S. Corporation Income Tax Return*; or Form 1120-S, *U.S. Income Tax Return for an S Corporation*. The Treasury Inspector General for Tax

[1] See Appendix VIII for a glossary of terms.
[2] Pub. L. No. 115-97, 131 Stat. 2054.
[3] TIGTA, Ref. No. 2019-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Efforts (Apr. 2019).*

Administration (TIGTA) has additional ongoing reviews assessing the IRS's implementation of other provisions. Appendix V provides a list of TIGTA's audit coverage of the Tax Cuts and Jobs Act. Appendix VI provides a list of the provisions we evaluated in this review.

Consolidated Appropriations Act of 2016[4] – Enacted on December 18, 2015, this Act contains the Protecting Americans From Tax Hikes Act of 2015 (PATH Act). The PATH Act contains a number of provisions referred to as program integrity provisions intended to reduce fraudulent and improper Earned Income Tax Credit (EITC), CTC, Additional Child Tax Credit (ACTC), and American Opportunity Tax Credit (AOTC) payments. The majority of the program integrity provisions were effective January 1, 2016, and affected the processing of TY 2016 tax returns.

The Patient Protection and Affordable Care Act (Affordable Care Act)[5] – Enacted March 23, 2010, this Act provides incentives and tax breaks to individuals and small businesses to offset health care expenses. It also imposes penalties, administered through the tax code, for individuals and businesses that do not obtain health care coverage for themselves or their employees. For the 2019 Filing Season, the IRS continued its efforts to verify claims for the Premium Tax Credit (PTC). Taxpayers who purchase insurance through an Exchange are required to file a tax return and attach Form 8962, *Premium Tax Credit (PTC)*, to claim the PTC and reconcile any Advance PTC (APTC) payments that were made to an insurer on their behalf. The Affordable Care Act also requires individuals to report on their compliance to maintain minimum essential health insurance coverage. Individuals who do not maintain minimum essential coverage or qualify for an exemption from the requirement must make a Shared Responsibility Payment. The Tax Cuts and Jobs Act modified the Affordable Care Act Shared Responsibility Payment by changing the penalty amount to $0 for months beginning after December 31, 2018.

The 2019 Filing Season results are being presented as of several dates between February 24 and July 25, 2019, depending on when the information was available. This review was performed with information obtained from the Wage and Investment Division Headquarters in Atlanta, Georgia; the Wage and Investment Division Submission Processing function offices in Cincinnati, Ohio; the Small Business/Self-Employed Division Examination Headquarters in Lanham-Seabrook, Maryland; and the Information Technology organization in Lanham, Maryland. 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.

[4] Pub. L. No. 114-113, 129 Stat. 2242 (2015).
[5] 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.

Results of Review

While the IRS faces challenges each year in every filing season, the 2019 Filing Season was more challenging than most. The IRS overcame three significant challenges in preparing for and delivering the 2019 Filing Season – the implementation of the Tax Cuts and Jobs Act, which contains 119 tax provisions; a significant redesign of Form 1040; and a partial Government shutdown during the month preceding the start of the filing season.

The Tax Cuts and Jobs Act is the first major tax reform legislation in more than 30 years. Implementation of the 119 tax provisions required the IRS to create 48 new tax products and revise 494 existing tax products; develop and issue guidance documents (*e.g.*, regulations, revenue rulings, revenue procedures, and notices) to assist taxpayers with the interpretation of provisions included in the Act; and perform computer programming changes and updates for 69 of the 119 provisions. The IRS stated that these changes and updates affected 128 information technology systems. The information technology work requests prepared by the operating divisions required the Information Technology organization to create 275 new electronic filing (e-file) business rules,[6] update 36 existing e-file business rules, and delete 248 e-file business rules. The requests also included creating four new error resolution codes and updating 22 existing error resolution codes.[7] Finally, the IRS also had to update its Return Review Program (RRP) and Dependent Database fraud detection systems to address changes in the location of data fields based on revisions to tax forms. In addition, it had to adjust filters and models to reflect changes made by the Tax Cuts and Jobs Act.

Along with the numerous challenges to implement provisions of the Tax Cuts and Jobs Act, on May 24, 2018, the decision was made to redesign Form 1040. For the 2019 Filing Season, Form 1040 was redesigned to fit a one-half-page front and back.[8] This was achieved by keeping the lines used by a large segment of taxpayers on the Form 1040 and moving less frequently used lines to one of six new Form 1040 schedules.[9] As a result, the IRS eliminated Form 1040A, *U.S. Individual Income Tax Return*, and Form 1040EZ, *Income Tax Return for Single and Joint Filers With No Dependents*. Therefore, all individual taxpayers will file using the same tax form for TY 2018.

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[6] Business rules are used to validate information included on e-filed tax returns for acceptance into tax return processing. The IRS will reject e-filed tax returns from processing when the tax return does not meet a business rule.

[7] Error resolution codes validate the accuracy of paper and e-filed tax returns during processing. When a tax return is identified with an error condition, the IRS suspends the tax return from processing and sends the tax return to a tax examiner to correct the error. Once corrected, the IRS continues to process the tax return.

[8] See Appendix VII for an example of the redesigned Form 1040.

[9] Schedule 1, *Additional Income and Adjustments to Income*; Schedule 2, *Tax*; Schedule 3, *Nonrefundable Credits*; Schedule 4, *Other Taxes*; Schedule 5, *Other Payments and Refundable Credits*; and Schedule 6, *Foreign Address and Third Party Designee*.

Finally, further affecting this filing season was the partial Government shutdown that lasted 35 days, which began on December 22, 2018, and ended on January 25, 2019. During this time frame, taxpayers were unable to obtain customer service assistance, a backlog of paper tax returns and taxpayer correspondence developed, and hiring of Submission Processing employees was delayed. For example:

- The IRS cancelled more than 16,500 scheduled appointments at Taxpayer Assistance Centers (TAC). As of May 3, 2019,[10] the IRS provided face-to-face assistance to approximately 1.4 million individuals, which is a 17.7 percent decrease from the 1.7 million served in Fiscal Year 2018 as of May 4, 2018.

- The IRS was unable to answer approximately 3.8 million calls from taxpayers between December 22, 2018, and January 21, 2019, because the telephone lines were not staffed to assist callers. As of May 3, 2019, the IRS reports a Level of Service of 67 percent, which is down from 80 percent the previous year as of May 4, 2018. In addition, the average speed of answer increased to nine minutes, which is up from five minutes the prior year.

- Delays occurred in the hiring of personnel in the Submission Processing function. These employees are responsible for sorting mail, transcribing paper tax returns, and resolving errors on the tax returns. As of June 13, 2019, the Submission Processing function had hired 4,099 (50 percent) of the 8,208 employees it planned to hire for the 2019 Filing Season. IRS management stated that, to compensate for being unable to fully hire the necessary Submission Processing personnel, it relied on various mitigation strategies to ensure timely processing of tax returns and refunds. These strategies included transferring tax returns to other processing centers, rotating employees from other departments, and allowing overtime for employees. For example, the IRS had to transfer 409,038 Forms 1040 between processing centers on four separate occasions in an effort to timely process paper-filed tax returns.

- A backlog of taxpayer correspondence occurred. The IRS reports receiving more than 5 million pieces of taxpayer correspondence, tax forms, payments, *etc.*, during the shutdown. The IRS reported that the total Accounts Management inventory decreased from approximately 2.4 million cases as of May 5, 2018, to more than 2.2 million cases as of May 4, 2019; however, the over-aged inventory increased. As of May 4, 2019, the IRS reported more than 905,000 cases in its over-aged inventory, which is an increase of nearly 23 percent when compared to the 2018 Filing Season, when the IRS reported more than 738,000 cases in its over-aged inventory as of May 5, 2018.

During the partial Government shutdown, the IRS was able to continue with some of its implementation activities related to the Tax Cuts and Jobs Act. This was due to the IRS having received separate funding for implementing the provisions in the Tax Cuts and Jobs Act. This

[10] Fiscal Year 2019 – October 1, 2018, through May 3, 2019.

included the issuance of tax forms, instructions, and publications; computer programming to accept and process tax returns; and the issuance of guidance documents, including regulations.

Processing Tax Returns

The IRS processed individual income tax returns at four tax processing centers during the 2019 Filing Season.[11] Despite the partial Government shutdown, the IRS began accepting and processing individual tax returns on January 28, 2019, as planned, which was three days after the Government reopened. As of May 3, 2019, the IRS received more than 141 million individual income tax returns. Figure 1 presents comparative filing season statistics as of May 3, 2019.

Figure 1: Comparative Filing Season Statistics (as of May 3, 2019)

Cumulative Filing Season Data	2018 Actual	2019 Actual	% Change
Individual Income Tax Returns			
Total Returns Received (000s)	140,895	141,001	0.1%
Paper Returns Received (000s)	15,258	13,488	-11.6%
E-Filed Returns Received (000s)	125,637	127,513	1.5%
Practitioner-Prepared (000s)	71,788	71,392	-0.6%
Home Computer (000s)	53,849	56,121	4.2%
Free File (000s) *(also in the Home Computer total)*	2,563	2,707	5.6%
Fillable Forms (000s) *(also in the Home Computer total)*	282	270	-4.3%
Percentage of Returns E-Filed	89.2%	90.4%	1.4%
Refunds			
Total Number Issued (000s)	101,372	100,430	-0.9%
Total Dollars (in billions)	$281.5	$274.3	-2.6%
Average Dollars	$2,777	$2,732	-1.6%
Total Number of Direct Deposits (000s)	84,632	86,320	2.0%
Total Direct Deposit Dollars (in billions)	$248.6	$247.6	-0.4%

Source: Multiple 2019 Filing Season reports. Totals and percentages shown are rounded. The 2018 Filing Season figures are through May 4, 2018, and the 2019 Filing Season figures are through May 3, 2019.

[11] Tax Processing Centers in Fresno, California; Kansas City, Missouri; and Austin, Texas, processed paper and e-filed tax returns. The Tax Processing Center in Ogden, Utah, processed paper tax returns only.

As of May 3, 2019, the IRS reported receiving more than 15 million filing extensions, which represents a 4.2 percent increase when compared to the 14.4 million received the prior year as of May 4, 2018.

Penalty relief is offered to some taxpayers who have a balance due resulting from insufficient tax withholding or underpayment of estimated taxes

The Tax Cuts and Jobs Act included provisions that made significant changes to income tax rates, income tax deductions and credits, and Federal income tax withholding. In an effort to minimize potential burden on employees and employers, the IRS, in conjunction with the Department of the Treasury, designed the TY 2018 withholding tables to work with employees' existing Forms W-4, *Employee's Withholding Allowance Certificate*, that were provided to their employers for prior tax years. In addition, the IRS updated its online withholding calculator on IRS.gov to work with the revised tax tables developed in response to legislative provisions included in the Tax Cuts and Jobs Act. This calculator provides taxpayers with the ability to estimate their tax liability and withholding under the Tax Cuts and Jobs Act. The calculator also provides the taxpayers with a suggestion for the number of withholding allowances they should claim for the remainder of the tax year.

However, even though the IRS took a number of actions to educate taxpayers, the IRS recognized that some taxpayers may not have checked their withholding and may unexpectedly owe tax when they file their TY 2018 tax returns. To assist taxpayers, the IRS announced on January 16, 2019, that it is waiving the estimated tax penalty for many taxpayers whose TY 2018 Federal income tax withholding and estimated tax payments fell short of their total tax liability for the year. The IRS would generally waive the penalty for any taxpayer who paid at least 85 percent of their total tax liability during the year through Federal income tax withholding, quarterly estimated tax payments, or a combination of the two.[12] On March 22, 2019, the IRS provided additional expanded penalty relief to taxpayers by further lowering the threshold required to qualify for this relief to 80 percent. To assist taxpayers that may have filed prior to March 22, 2019, and reported the underpayment penalty, the IRS issued guidance instructing taxpayers to file a Form 843, *Claim for Refund and Request for Abatement*, and claim relief by including the statement "80% Waiver of estimated tax penalty" on Line 7.

More than 1 million taxpayers requested the waiver – The waiver of the estimated tax penalty is not automatic but rather has to be requested by the taxpayer. To request the penalty waiver, an individual must file Form 2210, *Underpayment of Estimated Tax by Individuals, Estates, and Trusts*, with his or her TY 2018 income tax return. The Form 2210 is the same form taxpayers use to compute the penalty. Once a Form 2210 is received with the waiver request, the IRS will suppress the computation of the penalty. According to IRS management, the estimated tax

[12] The usual percentage threshold is either to have 90 percent of current tax liability paid in or to have 100 percent of the prior tax year's tax liability paid in to avoid a penalty.

penalty is unique in that the majority of the penalty assessments are self-assessed by taxpayers. For example, the IRS estimates that it computes and assesses only 6 percent of all estimated tax penalties; therefore, the remaining 94 percent are computed and self-reported by taxpayers on their tax returns. As of April 10, 2019, the IRS estimated it had received more than 1.7 million e-filed Forms 2210 (attached to a Form 1040 or 1040NR, *U.S. Nonresident Alien Income Tax Return*). The IRS estimates that 1.4 million (82.4 percent) of the 1.7 million included a reference to either the "85 percent Waiver" or "80 percent Waiver" in order to claim the penalty relief.

Systemic abatement of the estimated tax penalty did not take place during processing, but a recovery program has since been implemented – IRS systems were not programmed to automatically allow the waiver during processing if the taxpayer met IRS criteria for waiver of the underpayment penalty. We issued an e-mail alert on March 29, 2019, recommending that the IRS implement a systemic process to not assess a penalty if the taxpayer met the IRS criteria, with or without a waiver request. IRS management informed us that they did not have sufficient lead time to program all its systems to provide automatic penalty relief for those that qualified. For example, the programming for the waivers would have required new rules to perform analysis and computations using total tax as well as total payments and credits that post to the tax accounts on or prior to January 15, 2019. It typically takes more than a year to make all the necessary programming changes of this magnitude.[13] Therefore, because the Department of the Treasury only approved the waiver in January 2019, the IRS was unable to update its programming for the 2019 Filing Season.

While the IRS was unable to program automatic allowance of a waiver during processing, IRS management implemented a process to abate the penalty for all taxpayers who met the 80 percent criteria and had been assessed the penalty. We performed an analysis to identify taxpayers who were assessed a penalty but appear eligible for relief. At the time, IRS management had identified approximately 100,000 tax accounts requiring abatements, which was significantly lower than what we had identified. After sharing our results, we worked with IRS management in order to refine their identification of taxpayers with penalties needing abatement.

As of July 25, 2019, the IRS identified 443,146 taxpayers with penalties totaling approximately $39.8 million that met the IRS's criteria for abating the penalty. As of May 23, 2019, our analysis identified more than six million taxpayers with an assessed estimated tax penalty. We identified an additional 18,556 taxpayers with penalties totaling over $1.9 million that the IRS had not identified. The IRS agreed and plans to update programming to identify and abate these penalties.

On August 14, 2019, the IRS announced to the public that it will automatically waive the penalty for more than 400,000 eligible taxpayers who already had filed their TY 2018 tax returns but did

[13] For perspective, January 31 of the current calendar year is the general deadline to submit programming change requests for implementation the following January.

not claim the waiver. The IRS plans to perform the same analysis later in the calendar year to address any late-filed tax returns. Notices of the estimated tax penalty adjustment will be issued to taxpayers beginning July 15, 2019, and will continue through the remainder of the calendar year. The IRS has not eliminated the ability for the taxpayer to file a waiver even though it will abate all applicable penalties.

Form W-4, Employee's Withholding Allowance Certificate, is being revised for Calendar Year 2020 to implement Tax Cuts and Jobs Act changes

In response to the passage of the Tax Cuts and Jobs Act, the Department of the Treasury led the effort to develop a new Form W-4. The revised form will implement changes from the Tax Cuts and Jobs Act that made major revisions significantly affecting taxpayer withholding.

On May 31, 2019, the IRS released a draft of the new Form W-4 that removed the allowance system from the withholding determination and replaced it with set dollar amounts such as: nonwage income; other employment; tax credits, *e.g.*, CTC; and itemized deductions. Employ/ees provide this information on the Form W-4 to the employer, who will then calculate withholding.

In addition, on June 4, 2019, the IRS released an early draft of a new Publication 15-T, *Federal Income Tax Withholding Methods*, for TY 2020. The new publication was created to discuss all of the Federal income tax withholding methods that employers will use to compute employees' withholding. Information in this publication was previously discussed in three separate publications.

On August 6, 2019, the IRS also released a new online tax withholding estimator to assist taxpayers in determining the amount of Federal tax they should have withheld from their paycheck. The new tool for estimating the right amount of tax withholding can help taxpayers avoid surprises about the size of their tax bills or refunds during next year's filing season. The IRS updated the tax withholding estimator to provide a step-by-step tool to effectively tailor the amount of income tax that taxpayers have withheld from their paychecks. This includes separating out income earned by spouses, separating pension income, and entering in specific amounts for tax credits. These changes will better estimate the amount of tax taxpayers should have withheld.

On August 8, 2019, the IRS released a second draft of the new Form W-4. The computation of the withholding did not change from the earlier release; however, the title was changed to Form W-4, *Employee's Withholding Certificate*. The early release of the draft Form W-4 and Publication 15-T allows for programming to be started on payroll systems. The final version of the Form W-4 will be released later this calendar year.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should ensure that any remaining penalty assessments qualifying for the 80 percent waiver are identified and abated. This includes those penalties that have already been assessed as well as those that may be assessed on TY 2018 returns filed throughout Processing Year 2019.

> ***Management's Response:*** The IRS agreed with this recommendation. The affected accounts are being reviewed and corrected as needed. IRS management also plans to perform data analysis on all TY 2018 returns filed by the extended return due date of October 15, 2019, to identify taxpayers who qualified for the waiver and did not claim it. After identification of the accounts, management will perform a systemic abatement of the penalty assessments.

Evaluation of the Implementation of Tax Cuts and Jobs Act Provisions and the Redesign of Form 1040, U.S. Individual Income Tax Return

We selected for review a total of 176 business rules created or modified by the IRS and 87 business rules deleted or disabled by the IRS. These business rules related to the 26 provisions we selected for review as well as to the redesigned Form 1040. Our review confirmed that the IRS correctly deleted or disabled the 87 business rules. For the 176 new or modified business rules, we performed the following tests:

- Reviewed a judgmental sample[14] of tax returns that rejected for each business rule to ensure that they contained the attributes that would justify the rejection. At the time of our review, 26 of the 176 business rules had either not occurred or the volumes of rejected returns was less than five.
- Reviewed accepted tax returns to ensure that they did not contain the attributes that should have caused the tax return to be rejected. We did not perform this test for 115 of the 176 business rules that related to the redesigned Form 1040. The IRS announced that, for the 2020 Filing Season, Form 1040 would once again be redesigned, which will include eliminating and consolidating associated schedules. As such, any concerns that we may have identified would potentially no longer be applicable because of the changes the IRS plans to make to the form and schedules for use in the 2020 Filing Season.

For the 176 business rules we tested, we identified nine (5.1 percent) for which programming errors resulted in 28,411 tax returns being incorrectly rejected (eight business rules) and 149 tax returns incorrectly not being rejected (one business rule). For example:

- Six business rules are incorrectly rejecting tax returns due to the incorrect computation of the standard deduction amount. The incorrectly rejected tax returns include those for

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

which a taxpayer does not have an entry for the spouse but checks one or more of the checkboxes that indicate that the spouse was aged 65 or over and/or was blind. The IRS was allowing the additional standard deduction amount for each box checked even though there was no spouse on the tax return entitled to the increased standard deduction. The following is a hypothetical example:

> *Taxpayer A files a tax return with a filing status of Qualifying Widower and incorrectly selects a checkbox that his or her spouse was blind (which increases the standard deduction by $1,300). Because the widower has no spouse, the taxpayer actually claims the correct standard deduction amount of $24,000, which is the amount allowed for the Qualifying Widower filing status. The IRS programming computes the standard deduction amount as $25,300 ($24,000 + $1,300) and rejects the tax return because it does not match the correct amount of $24,000 reported by the taxpayer.*

In this example, while the taxpayer erred in checking the box for the spouse, the tax return should not be rejected because the taxpayer claimed the correct standard deduction of $24,000. The IRS programming should determine if a spouse is reported on the tax return before computing an increase in the standard deduction.

As of May 2, 2019, we identified 41 tax returns for 36 taxpayers[15] that incorrectly rejected. We notified IRS management of our concern on March 13, 2019. The IRS agreed that these tax returns were incorrectly rejected and plans to correct programing for the 2020 Filing Season.

- A business rule is incorrectly rejecting tax returns for which the taxpayer ***does not report*** an amount for other adjustments to income but inadvertently attaches an "Other Adjustments Statement" to the tax return with blank or zero values. The business rule was developed to ensure that a taxpayer attaches a supporting statement to the tax return when reporting an amount for other adjustments to income on a return. However, we determined that the business rule was rejecting the tax returns even if the amount on the attached supporting statement was zero. As of May 2, 2019, we identified 1,416 tax returns rejected and determined that 1,385 (98 percent) rejected when the statement attached was zero. We notified IRS management of our concern on February 12, 2019. On August 28, 2019, we sent the tax returns that we believe incorrectly rejected to the IRS. The IRS agreed to update the programming for the 2020 Filing Season to no longer reject tax returns that have an Other Adjustments Statement with zero values.
- A business rule is incorrectly rejecting tax returns for which the taxpayer reports a third-party designee on both the first page of the tax return and on the Form 1040, Schedule 6. This makes it appear that the taxpayer has more than one third-party

[15] A taxpayer could have attempted to file a tax return more than one time.

designee, which the IRS does not allow. However, our review found that taxpayers were reporting the *same* third-party designee in both areas and that, in fact, there was only one third-party designee. The business rule does not take into consideration whether or not the taxpayer has indicated the same person in both areas. As of May 2, 2019, we identified 27,605 tax returns rejected because they had two third-party designees reported on the tax return. In 26,985 (98 percent) of these instances, the third-party designee was the same person in both locations. We notified IRS management of our concern on February 12, 2019. The IRS did not update the programming associated with this business rule. Therefore, the IRS continued to reject tax returns that reported the same third-party designee in both locations. This issue will resolve itself in TY 2019 because Schedule 6 will no longer be applicable so there will be only one location for the third-party designee.

In addition, we identified one business rule that was not correctly rejecting tax returns. Tax returns were not being rejected that include claims for the CTC and/or ACTC when the child claimed has an Adoption Taxpayer Identification Number (ATIN) or an Individual Taxpayer Identification Number (ITIN). Provision 11022 of the Tax Cuts and Jobs Act of 2017 requires that dependents have a valid Social Security Number to qualify for the CTC and ACTC. However, the IRS business rule was programmed to reject tax returns claiming the CTC only when the child claimed had an ITIN.

As of May 2, 2019, we identified 58 tax returns that should have been rejected with CTC claims totaling $93,770 and 91 tax returns claiming the ACTC totaling $132,671. For the 58 tax returns that should have been rejected with CTC claims, 47 of the 58 tax returns actually received CTCs totaling $72,809. For the remaining 11 tax returns, the IRS properly changed the CTC to the Credit for Other Dependents, which allows the use of an ATIN. For the 91 tax returns that claimed the ACTC, 76 of the 91 tax returns actually received ACTC claims totaling $106,479. For the remaining 15 tax returns, the ACTC amount was denied during processing. We notified IRS management of our concern on May 10, 2019. The IRS agreed that these returns should have been rejected and plans to correct programming for the 2020 Filing Season.

In addition, our review identified the need for an additional business rule. We found that tax returns were not being rejected that included claims for the ACTC that exceeded the threshold of $1,400 per child. We determined that there was a related business rule but that it was programmed to reject tax returns only claiming more than $2,000 in the combined CTC and ACTC per child. This existing rule did not identify those claims for which the ACTC exceeded the limit of $1,400 per child.

As of May 2, 2019, we identified 398 (122 were e-filed) tax returns that claimed over the limit of $1,400 per child for the refundable ACTC. These tax returns claimed more than $656,000 in ACTCs over the limit than what they should have been able to claim.

Assessment of the accuracy of error resolution codes

We selected for review a total of 41 error resolution codes created or modified by the IRS relating to the 26 key provisions as well as the redesigned Form 1040. However, we did not perform in-depth testing for seven of the 41 error resolution codes that related to the redesigned Form 1040. The IRS announced that, for the 2020 Filing Season, Form 1040 would once again be redesigned, including eliminating and consolidating associated schedules. As such, any concerns that we may have identified would potentially no longer be applicable because of the changes the IRS plans to make to the form and schedules for use in the 2020 Filing Season.

For the 34 error resolution codes we tested, we identified two (5.9 percent) that had programming errors. The following details the specific error resolution codes in which programming errors resulted in the erroneous suspension and review of tax returns:

- An error resolution code erroneously suspended for review tax returns that exceeded the 20 percent limitation on the Qualified Business Income (QBI) deduction when rounding caused the amount to be exceeded. This occurred because the IRS did not include a dollar tolerance for *de minimis* rounding up to the nearest dollar when such rounding causes the QBI deduction to barely exceed the 20 percent limitation. For example, when the QBI deduction amount of $375.60, is rounded to $376 on the tax return, technically it is over the 20 percent limitation. The IRS identified these tax returns as having an erroneous QBI deduction. We notified the IRS of our concern on February 14, 2019. The IRS agreed with our assessment and had not only identified the issue prior to our notification but had initiated corrective actions. According to the IRS, the corrected programming was implemented on February 21, 2019.

- An error resolution code erroneously suspended for review e-filed tax returns for taxpayers correctly claiming Head of Household filing status. The redesigned Form 1040 removed the field taxpayers used to identify the name of a qualified person when claiming Head of Household filing status. Instructions inform the taxpayer to write in the qualifying person on paper tax returns. However, there was no programming to use the qualifying person information on e-filed tax returns claiming Head of Household filing status prior to February 10, 2019. As a result, the necessary information was not available for the error resolution code programming, which caused tax returns to be erroneously suspended. We notified the IRS of our concern on February 14, 2019. The IRS agreed with our assessment and had not only identified the issue prior to our notification but had already taken actions to correct programming, which was completed on February 24, 2019. Prior to the IRS correcting the programming, we identified 222,154 e-filed tax returns that had been erroneously suspended.

The IRS developed business rules and an error code in response to TIGTA recommendations to identify taxpayers incorrectly calculating QBI deductions

In March 2019, we reported that the IRS had not established processes to identify individual taxpayers who were not eligible to claim the QBI deduction at the time tax returns were processed.[16] We brought to management's attention our concerns about the lack of processes to identify individual taxpayers who were not eligible to claim the deduction and cases in which the deduction exceeded the allowable amount. We recommended that the IRS:

- Ensure that computer programming is implemented to identify tax returns exceeding the statutory limitations at the time tax returns are processed. In response, the IRS developed two business rules and one error resolution code to identify tax returns with QBI deductions that exceeded the 20 percent deduction limitation. As of May 2, 2019, the IRS rejected 13,226 tax returns with QBI deductions claimed in excess of the statutory limit for the two business rules. However, we found that 9,029 (68 percent) tax returns were erroneously rejected prior to the official start of the filing season because the IRS did not include a dollar tolerance for *de minimis* rounding up to the nearest dollar when rounding causes the QBI deduction to barely exceed the 20 percent limitation. The IRS identified and fixed this rounding error for the business rules prior to the official start of the filing season. The IRS correctly rejected 4,197 (32 percent) tax returns with QBI deductions in excess of the statutory limit totaling approximately $349.6 million. In addition, as of April 26, 2019, another 7,719 tax returns with QBI deductions totaling $58.7 million in excess of the statutory limit were suspended and sent to error resolution to be addressed. These 7,719 tax returns had QBI deductions allowed over the statutory limit and were not suspended due to the dollar rounding tolerance previously discussed.

- Establish a process to identify and evaluate tax returns at filing with claims for QBI deductions that do not include a schedule commonly associated with a business (Schedule C, *Profit or Loss From Business*; Schedule E, *Supplemental Income and Loss*; or Schedule F, *Profit or Loss From Farming*) and do not list real estate investment trust dividend income. Although the IRS agreed with this recommendation, there was not enough time to develop a form that was needed to identify these types of claims during the 2019 Filing Season at the time tax returns were processed. As of May 2, 2019, we identified 38,075 tax returns with QBI deductions allowed totaling approximately $43.8 million for which the filer did not include a schedule commonly associated with a business (Schedule C, E, or F). The taxpayer also did not have a Form 1099-DIV, *Dividends and Distributions*, reporting any dividend income in Box 5, indicating they did not have real estate investment trust dividend income to indicate ownership in a business. For example, we found 4,500 (12 percent) of the 38,075 tax returns for which wages were

[16] TIGTA, Ref. No. 2019-44-022, *Tax Cuts and Jobs Act: Implementation of the Qualified Business Income Deduction* (Mar. 2019).

the only income reported, which does not qualify for the QBI deduction. The IRS agreed with our assessment and plans to implement programming to identify these types of returns at filing for the 2020 Filing Season.

- In addition, the IRS is developing filters and is formulating a post-processing compliance plan to identify for further review tax returns that appear to abuse the QBI deduction provision of the Tax Cuts and Jobs Act. As of May 4, 2019, the IRS identified for further review, as part of its examination plan, 1,697 TY 2018 tax returns claiming the QBI deduction that did not have an indication of having a business. The identification of these cases would have been subjected to specific tolerances in the review criteria.

Taxpayers are not claiming QBI deductions when it appears they qualify based on information included on their filed tax returns

Our review identified 887,991 TY 2018 tax returns processed as of May 2, 2019, that, based on the information reported on the tax return, appear to qualify for the QBI deduction but no deduction was claimed by the taxpayer. Each of these tax returns included a form associated with a business, specifically a Schedule C or Schedule F with a combined profit reported. In addition, these tax returns reported positive taxable income at an income level threshold that qualified for the QBI deduction (*i.e.*, income level at or below $315,000 for Married Filing Jointly or $157,500 for all other filing statuses).

The IRS developed a communication strategy to provide taxpayers with information about the QBI deduction. The IRS provided information through various outreach platforms including IRS.gov, videos, webinars, social media, and events. Outreach began in July 2018 with the start of the Tax Forums, and communications continued throughout Calendar Years 2018 and 2019.

When we discussed this information with IRS management, they indicated that there could be various reasons why a taxpayer may not claim the QBI deduction. IRS management indicated that taxpayers may not understand that they are eligible to claim the deduction or the software the taxpayer relied on to prepare their tax return may not be clear as to what constitutes qualified business income. In addition, taxpayers may have trade or business income earned outside of the United States, which would make them ineligible for the deduction or they may just choose not to claim the credit. We believe increased outreach and education for taxpayers would help ensure that taxpayers were aware of their eligibility to claim the deduction.

Preparer Due Diligence requirements expanded to include returns with Head of Household filing status and Credit for Other Dependents claims

The Tax Cuts and Jobs Act expanded preparer due diligence requirements to include tax returns filed with a filing status of Head of Household as well as tax returns with the Credit for Other Dependents claims. Our review identified that, in response to this legislation, the IRS updated the TY 2018 Form 8867, *Paid Preparer's Due Diligence Checklist*, to include the requirements for tax returns filing with the Head of Household status as well as returns with the Credit for

Other Dependents claims. As of May 23, 2019, our analysis of TY 2018 returns filed by a paid preparer identified:

- 10,007,427 tax returns filed with a filing status of Head of Household, of which 9,967,968 (99.6 percent) included a Form 8867 with the tax return as required. The remaining 39,459 (0.4 percent) did not include the required Form 8867.
- 7,564,798 tax returns filed claiming the Credit for Other Dependents, of which 7,541,098 (99.7 percent) included a Form 8867 with the tax return as required. The remaining 23,700 (0.3 percent) did not include the required Form 8867.

Processes have been established to consider whether the Form 8867 is attached when required. The IRS systemically identifies all e-filed tax returns filed by a preparer (excluding those who provide only an Employer Identification Number (EIN) as their preparer number) with a filing status of Head of Household or a CTC, ACTC, AOTC, EITC, or Credit for Other Dependents claim for which Form 8867 was not included with the tax return. The IRS sends the preparer an automated alert reminding the preparer of the Form 8867 requirement and notifying the preparer that the IRS can impose a $520 penalty for each failure to submit Form 8867. The IRS also identifies preparers who file paper tax returns without a Form 8867 attached and sends a letter to remind these preparers of their due diligence requirement. However, the IRS sends a letter only to preparers who file at least six paper tax returns with no Form 8867 attached. The issuance of the letters and the alerts distinguishes the preparers who may receive due diligence penalties for the missing Form 8867. Preparers who continue to submit ten or more tax returns missing the Form 8867 after receiving the alerts and/or letters informing them of their due diligence requirements receive a proposed penalty letter for continued failure of due diligence.

Revisions are planned for Form 1040 and related schedules as well as the release of the new Form 1040-SR, U.S. Tax Return for Seniors, for TY 2019

In response to feedback received from internal and external stakeholders, as well as results from an IRS-commissioned usability study, the IRS is making changes to Form 1040 and related schedules for TY 2019. For example, three of the six Form 1040 schedules that were new for TY 2018 are now obsolete. The information from these schedules will be included on other existing schedules or on the revised Form 1040. The following summarizes some of the changes for TY 2019:

- Form 1040 is being revised to include the income section on the first page (this information was previously on the second page), while the second page contains tax and refund information. The revised page 2 also includes the signature and paid preparer information that was previously on page 1. In addition, page 2 includes the third-party designee (other than a paid preparer) information that was previously captured on Schedule 6, *Foreign Address and Third Party Designee.*
- Schedule 1, *Additional Income and Adjustments to Income*, has renumbered lines along with some additional lines added. For example, two new lines were added to show the

date of original divorce or separation agreement – one in the Part I Additional Income section for alimony received and the other in Part II Adjustments to Income section for alimony paid.

- Schedule 2, *Tax*, will be renamed to Schedule 2, *Additional Taxes*. The revised Schedule 2 will be divided into two parts. Part I will be used to report the same taxes as previously reported on Schedule 2. Part II will contain information previously captured on Schedule 4 (which is now obsolete).
- Schedule 3, *Nonrefundable Credits*, will be renamed to Schedule 3, *Additional Credits and Payments.* The revised Schedule 3 will be divided into two parts. Part I will be used to report nonrefundable credits, and Part II will be for other payments and refundable credits. Part II contains information previously captured on Schedule 5, which is now obsolete.
- Schedule 6, *Foreign Address and Third Party Designee*, is now obsolete. The information previously captured will be reported on the revised Form 1040, page 2.

The extensive changes to Form 1040 and related schedules will once again significantly increase the scope of work the IRS will be required to perform in preparation for the 2020 Filing Season. The work will include updates to existing tax forms, instructions, and publications and the development of new tax forms, instructions, and publications as well the need to update, delete, or develop new business rules and error codes.

In addition, in response to a provision in the Bipartisan Budget Act of 2018,[17] signed into law on February 9, 2018, the IRS developed Form 1040-SR, *U.S. Tax Return for Seniors*, for use by taxpayers age 65 or older to file their individual income tax return. The legislation indicated that the form should be as similar as practicable to Form 1040EZ, except that it should be available only to individuals age 65 or older and include the ability to report income from Social Security benefits, pensions and annuities, interest and dividends, and capital gains and losses. There is to be no limit on the amount of income that can be reported on Form 1040-SR. This form should be made available beginning with TY 2019. Similar to redesigns of Form 1040 and related schedules, the development of Form 1040-SR will require the IRS to update tax forms, instructions, and publications as well as update and develop business rules and error codes. We will include an assessment of the IRS's actions to redesign Form 1040 and related schedules and the release of Form 1040-SR as part of our 2020 Filing Season reviews.

[17] Pub. L. No. 115-123, 132 Stat. 64.

Processes and procedures are needed to detect potential false claims associated with specific provisions included in the Tax Cuts and Jobs Act

The IRS is developing filters and is formulating a post-processing compliance plan to identify for further review tax returns that appear to abuse the Tax Cuts and Jobs Act provisions. However, our review identified that additional actions are needed to address potential abuse of specific provisions that reduce or eliminate specific deductions and credits. For example:

- ***Unreimbursed employee business expenses*** – The Tax Cuts and Jobs Act eliminated the deduction for job-related expenses or other miscellaneous itemized expenses that were subject to the 2 percent of Adjusted Gross Income (AGI) limitation. We issued an e-mail alert to IRS management on May 8, 2019, outlining our concerns that a potentially significant number of taxpayers may be erroneously claiming unreimbursed employee business expenses as an adjustment to income.[18] As of May 2, 2019, our analysis identified 284,142 TY 2018 individual income tax returns with an adjustment to income claimed by the taxpayer for unreimbursed employee business expenses totaling more than $3.1 billion. In comparison, for this same period in the prior tax year, we identified 129,726 individual income tax returns for TY 2017 that reported an adjustment to income claimed by the taxpayer totaling over $684.4 million. This represents an increase of 154,416 (119 percent) tax returns with unreimbursed employee business expense claims, which may be an indication of taxpayers erroneously claiming this adjustment to their income that they had previously been allowed to claim as an itemized deduction.

  In response to our e-mail alert on May 30, 2019, Submission Processing division management responded that they do not have math error authority and must accept the deductions as claimed during processing. Additionally, we met with IRS management from the Small Business/Self-Employed Division on June 18, 2019, to discuss the examination filters pertaining to the Tax Cuts and Jobs Act provisions that they developed and have been using to identify TY 2018 individual tax returns for further review. As of May 4, 2019, the IRS identified for further review 68,291 TY 2018 tax returns with unreimbursed employee business expense deductions after applying its review criteria. During our meeting, IRS management informed us that they would be meeting in August to continue reviewing their compliance plans and will make decisions on these filters and the IRS's overall examination plan.

- ***Moving expenses*** – The Tax Cuts and Jobs Act eliminated the deduction for moving expenses except for members of the Armed Forces on active duty who are moving by military orders to a permanent change in duty station. For previous tax years, a taxpayer was allowed a deduction for qualified moving expenses paid or incurred during the taxable year due to the start of work by the taxpayer as an employee or as a

[18] Employee business expenses are deductible only as an adjustment to income for certain select occupations, such as the Armed Forces reservists, qualified performing artists, fee-basis State or local government officials, and employees with impairment-related work expenses.

self-employed individual at a new principal place of work. As of May 2, 2019, our analysis identified 82,980 tax returns with a moving expense deduction claimed for which 12,510 (15 percent) do not appear to be military related. As of May 4, 2019, the IRS identified for further review 1,590 TY 2018 tax returns with a moving expense deduction as part of its examination plan after applying its examination tolerances. Our analysis identified additional criteria that could potentially be used in the IRS's examination criteria. As of September 23, 2019, the IRS is researching the additional criteria to determine if the criteria should be included in the examination filters.

- ***Casualty and theft losses*** – The Tax Cuts and Jobs Act limited the personal casualty and theft loss to only those claims associated with a Federally declared disaster for TYs 2018 through 2025. We analyzed 52,011 tax returns processed as of May 2, 2019, that claimed a casualty loss totaling more than $1.2 billion. Our analysis identified 7,761 tax returns (15 percent) with deductions totaling $267.9 million that did not include a code denoting that they were in a disaster area.

  Casualty and theft loss deductions are included on Form 4684, *Casualties and Thefts*, and reported as a deduction on Form 1040, Schedule A, *Itemized Deductions*. Taxpayers are instructed to enter the Federal Emergency Management Agency (FEMA) code that qualifies as a Federally declared disaster area on their Form 4684. The IRS has included in its post-compliance plan the identification of casualty and theft losses with either no FEMA code present on Form 4684 or a FEMA code for which the IRS does not have a record. Examination resources are more expensive than Error Resolution resources or than the taxpayers fixing the error themselves. As of May 4, 2019, the IRS identified for further review, as part of its examination plan, 6,412 TY 2018 tax returns claiming a casualty and theft loss. The identification of these cases would have been subjected to specific tolerances in the review criteria.

  We also found that the IRS guidance did not include certain FEMA codes that would indicate a taxpayer was qualified to take a deduction for the casualty and theft loss. On December 21, 2018, we notified the IRS of the concern that it was allowing losses only when a FEMA code that started with the letters "DR" was provided on the form and that it was not allowing losses with the letters "EM." The IRS agreed that EM should be part of the Federally declared disaster areas allowed in claiming losses. However, the corrective action was not implemented until March 17, 2019; therefore, the IRS unnecessarily delayed the processing of tax returns that claimed a loss with FEMA codes containing the "EM" designation. Our analysis as of May 2, 2019, identified 453 e-filed tax returns with losses totaling approximately $14.6 million that had the "EM" designation but were flagged for further review. As of May 2, 2019, 328 of the 453 tax returns had refunds totaling more than $1.7 million that were delayed while the IRS used Examination resources to review the tax returns unnecessarily. We found that 84 of the remaining 125 tax returns were still being reviewed by Examination; therefore, the taxpayers still had not received their refunds. The remaining 41 tax returns either did not claim a refund or the refund was not delayed.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 2: Create a business rule that rejects tax returns when the checkbox(es) for blind or age 65 or older are checked for a spouse but there is not a spouse being claimed on the tax return.

> ***Management's Response:*** The IRS agreed with this recommendation and has submitted requisite programming changes to address this issue.

Recommendation 3: Implement programming to compute the correct allowable increase in the standard deduction for tax returns for which a taxpayer does not have an entry for the spouse but checks one or more of the checkboxes that indicate that the spouse was age 65 or older and/or was blind.

> ***Management's Response:*** The IRS agreed with this recommendation and plans to evaluate and implement programming changes, if feasible.

Recommendation 4: Correct programming to no longer reject tax returns with a blank or zero amount on the Other Adjustments Statement.

> ***Management's Response:*** The IRS agreed with this recommendation and has submitted requisite programming changes to address this issue.

Recommendation 5: Implement programming to reject tax returns with claims for the CTC and/or ACTC when the child claimed has an ATIN or ITIN. In addition, ensure that programming is corrected to reject tax returns with claims for the ACTC that exceed the statutory limit of $1,400 per child.

> ***Management's Response:*** The IRS agreed with this recommendation and has submitted requisite programming changes to address this issue.

Recommendation 6: Review the returns of the 123 taxpayers that received CTC and ACTC claims for a dependent that had an ATIN or ITIN and the 398 taxpayers that received ACTCs over the $1,400 limit and ensure that the IRS recovers the improper amount that the taxpayers received.

> ***Management's Response:*** The IRS agreed with this recommendation. The affected accounts are being reviewed and corrected, as needed.

Recommendation 7: Provide refresher training to tax examiners on accurately evaluating and working tax returns that involve ACTC claims above the allowable limit as well as QBI deduction claims above the allowable amount.

> ***Management's Response:*** The IRS agreed with this recommendation and plans to include training on accurately evaluating and working tax returns that involve both

ACTC claims and QBI deduction claims above the allowable amounts during its annual refresher training for tax examiners.

Recommendation 8: Review the 7,719 tax returns that exceeded the allowable QBI deduction and ensure that the IRS recovers the improper amount the taxpayer received.

Management's Response: The IRS partially agreed with this recommendation. In July 2018, IRS management implemented post-processing business rules to identify erroneous QBI deductions. Management plans to continue using its existing post-processing business rules to identify returns that exceed the allowable QBI deduction. Management does not agree to review and recover all 7,719 tax returns that exceed the allowable QBI deduction because it may not have a tax consequence sufficient to warrant such an action.

Office of Audit Comment: IRS management did not agree with our related outcome and stated that the extent of noncompliance, if any, cannot be determined without an examination. IRS management also stated that there are business rules to identify these type of returns with a risk of noncompliance. However, our review showed that these controls were not operating as intended, resulting in the QBI deduction being allowed over the maximum limit. In addition, we understand that not all of the 7,719 tax returns we identified may have a tax consequence large enough to warrant the resources needed to identify and assess the unpaid tax. However, the IRS should ensure that all of the returns for which the erroneous QBI deduction exceeds the cost to review the return are reviewed and the unpaid tax assessed.

Recommendation 9: Evaluate the 38,075 tax returns we identified with a QBI deduction for which the filer did not appear to qualify to claim the deduction (because the filer did not have a business or real estate investment trust dividend income) to ensure that taxpayers are entitled to the deductions claimed.

Management's Response: The IRS agreed with this recommendation. In July 2018, IRS management applied its post-processing business rules to the 38,075 returns with potential erroneous deductions to identify taxpayers who did not appear to qualify to claim the QBI deduction due to not having a business or real estate investment trust dividend income. Management plans to evaluate the tax consequences and select the appropriate returns for further treatment.

Office of Audit Comment: IRS management agreed that the tax returns we identified did not contain the schedules necessary to support the QBI deduction. However, IRS management disagreed with our outcome related to this issue, stating that the extent of noncompliance, if any, cannot be determined without an examination. Our outcome represents the total amount of QBI deductions claimed by taxpayers who did not have a business or real estate investment trust dividend income, which is the total potential loss to the Government resulting from the IRS's lack of processes to prevent such claims at the time tax returns are processed.

Recommendation 10*:* Evaluate the 887,991 tax returns that appear to qualify for the QBI deduction but for which no deductions were claimed to identify common characteristics that would enable the IRS to work with internal and external stakeholders in order to develop a more targeted outreach plan to ensure that taxpayers are aware of the eligibility requirements to claim the deduction.

> ***Management's Response:*** The IRS agreed with this recommendation and plans to use its research functions to identify common characteristics that would assist them with developing a more targeted outreach plan to ensure that taxpayers are aware of the eligibility requirements to claim the deduction. IRS management has already reached out to external partners and plans to continue to work with them to raise awareness of the deduction.

Recommendation 11: Evaluate the need to implement processes at filing that will identify tax returns that have a deduction for moving expenses which do not appear to qualify for the deduction, such as adding a required EIN field or a checkbox for the taxpayer to attest that they are a member of the military.

> ***Management's Response:*** The IRS agreed with this recommendation and plans to coordinate with its compliance functions to determine if processes can be implemented at the point of filing that will supplement existing compliance selection processes to identify questionable or nonqualifying moving expense deductions.

Recommendation 12*:* Create a business rule to reject tax returns when a casualty and theft loss deduction is included on Schedule A and Form 4684 does not include the required FEMA disaster declaration number.

> ***Management's Response:*** The IRS partially agreed with this recommendation to the extent that it will reduce the volume of returns processed with missing FEMA disaster declaration numbers. IRS management does not think rejection of these returns is the appropriate treatment. The absence of a FEMA disaster declaration number on a return claiming a casualty loss does not make an otherwise eligible loss ineligible. The determination of eligibility for the deduction is a question that can only be answered through an examination, a process that must be conducted under deficiency procedures. With input from its compliance functions, IRS management plans to develop processes to identify returns missing the disaster declaration numbers and route them to the Error Resolution function for treatment.

Recommendation 13: Review the 7,761 tax returns that claimed the casualty and theft loss deduction but did not provide a sufficient FEMA disaster declaration number to determine if the taxpayers are entitled to the deductions claimed.

> ***Management's Response:*** The IRS agreed with this recommendation. In July 2018, IRS management implemented post-processing business rules to identify casualty and theft loss deductions that did not provide a sufficient disaster declaration number.

Management plans to continue using its existing post-processing business rules to identify returns that do not provide a sufficient disaster declaration number.

Evaluation of Integrity Provisions Included in the Protecting Americans From Tax Hikes Act of 2015

The PATH Act requires the IRS to hold refunds for taxpayers claiming the EITC and the ACTC until February 15. In addition, it moved the filing date for Forms W-2, *Wage and Tax Statement*, and Forms 1099-MISC, *Miscellaneous Income*, to January 31. This provision was enacted to allow the IRS more time to validate the income used to support EITC and ACTC claims before refunds are issued. Our analysis identified the following:

- As of May 2, 2019, the IRS received 239.6 million Forms W-2 filed by 5.1 million employers. This compares to 236 million Forms W-2 filed by 5.2 million employers as of May 3, 2018.
- As of May 2, 2019, the IRS received 35.2 million Forms 1099-MISC with nonemployee compensation, which were filed by 2.7 million employers. This compares to approximately 37.8 million Forms 1099-MISC with nonemployee compensation filed by 3.5 million employers as of May 3, 2018.

As we have continued to report, even with earlier income and withholding reporting, we identified that the majority of tax returns with income discrepancies are still not addressed before refunds are issued. For example:

- As of May 2, 2019, our analysis of TY 2018 tax returns identified more than 23.3 million TY 2018 tax returns that claimed a refund and the EITC and/or ACTC. We matched Forms W-2 received by the IRS, as of May 2, 2019, to the wages reported on the more than 23.3 million tax returns to evaluate whether the income reported by the taxpayers on these tax returns was supported by third-party Forms W-2. We identified more than 3.5 million tax returns with an income discrepancy of $1,000 or greater from what was reported on the tax returns to what was reported on Forms W-2. These tax returns were not selected for further review by the IRS. Refunds associated with these tax returns totaled more than $16.6 billion, which included over $8.3 billion in EITCs and over $4.3 billion in ACTCs. For 963,618 of the tax returns, we identified that the IRS received no third-party Forms W-2 supporting the wages reported on the returns (for which over $3.3 billion in EITCs and/or ACTCs was paid).
- Our analysis of TY 2018 tax returns that reported a Schedule C or a Schedule F and a tax refund identified more than 4.9 million tax returns that did not have at least one Form 1099-MISC available at the time the tax return was processed.[19] Of the more than

[19] Unlike the reporting of wages, not all Schedule C and Schedule F filers will have a Form 1099-MISC with nonemployee compensation, which further complicates the IRS's ability to identify filers who misreport income in

4.9 million tax returns, only 381,862 (8 percent) were identified for review before May 2, 2019. The remaining approximately 4.6 million (94 percent) with $21 billion in refunds claimed were not reviewed before May 2, 2019.[20] We also identified 527,353 TY 2018 tax returns that reported a Schedule C or a Schedule F and a tax refund that had at least one Form 1099-MISC available at the time the tax return was processed. There were 26,486 that were reviewed and 500,867 that were not reviewed as of May 2, 2019. For those not reviewed, there were more than $1.8 billion in refunds, which included more than $1.1 billion in EITCs and more than $643 million in ACTCs.

An educational institution EIN is required when claiming the AOTC

In December 2018,[21] we reported that we identified 234,053 tax returns filed without an educational institution EIN, for which taxpayers received approximately $209 million in refundable AOTCs. In a prior report,[22] we recommended that the IRS should establish processes to use its math error authority to deny all e-filed and paper AOTC claims for which the taxpayer does not provide the institution EIN for each student claimed on the return. In response, the IRS agreed to establish processes for Processing Year 2019 to identify AOTC claims at the time tax returns are filed for which the required EIN is not provided. The PATH Act modified the AOTC to require individuals claiming the credit to provide the EIN of the educational institution.

On November 29, 2018, we notified the IRS that our review of the AOTC business rules found that e-file tax returns would be rejected only for those AOTC claims for which an EIN was not provided and the taxpayer indicated having received a Form 1098-T, *Tuition Statement*, from the educational institution. We recommended that the IRS create a business rule to identify and reject all e-filed tax returns with an AOTC claim if no EIN of the educational institution was provided. The IRS agreed and created a separate business rule to cover all AOTC claims for which an EIN was not provided. As of May 2, 2019, 26,423 returns were rejected by the new business rule.

However, we identified that the new business rule rejected e-filed returns only when the AOTC claims involved only the refundable portion of the AOTC. Our analysis of e-filed tax returns processed as of May 2, 2019, identified 938 AOTC claims with approximately $709,000 in nonrefundable AOTCs and approximately $608,500 in refundable AOTCs totaling $1.3 million that were not rejected. For these tax returns, the taxpayer did not provide the required institution EIN on Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits),* or provided an obviously invalid EIN. Our review identified only those tax returns that were not corrected; if the tax examiners corrected the tax returns and did not allow the AOTC, we did not identify the tax return for review. We shared this concern with the IRS on June 21, 2019, and the

support of a refundable credit claim. The income used to support these claims can only be verified through further review by the IRS. However, most of these claims were not selected for review.

[20] The percentages do not total to 100 due to rounding.

[21] TIGTA, Ref. No. 2019-40-013, *Results of the 2018 Filing Season* (Dec. 2018).

[22] TIGTA, Ref. No. 2018-40-012, *Results of the 2017 Filing Season* p. 20 (Jan. 2018).

IRS agreed and plans to update the business rule programming to identify claims without the educational institution EIN, including those that are obviously invalid, regardless of whether the claim is refundable or nonrefundable.

While these 938 tax returns were not rejected, an error resolution code identified them for further review; however, the tax examiners incorrectly allowed the AOTC claims. We also identified 734 paper-filed tax returns without an EIN or with an obviously invalid EIN. Tax examiners incorrectly allowed approximately $553,000 in nonrefundable AOTCs and approximately $661,000 in refundable AOTCs totaling over $1.2 million for these paper tax returns. On August 12, 2019, we provided the IRS with the 1,672 tax returns for which tax examiners had incorrectly allowed $2.5 million in AOTC claims.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 14: Implement programming to identify AOTC claims without the educational institution EIN regardless of whether the claim is refundable or nonrefundable.

> ***Management's Response:*** The IRS agreed with this recommendation and has submitted requisite programming changes to address this issue.

Recommendation 15: Provide refresher training to tax examiners on accurately identifying and denying claims for the AOTC if there is no educational institution EIN present.

> ***Management's Response:*** The IRS agreed with this recommendation and plans to include training on accurately identifying and denying claims for the AOTC if there is no educational institution EIN present during its annual refresher training for tax examiners.

Administration of Affordable Care Act Provisions

As of May 2, 2019, the IRS processed 4.8 million tax returns that self-reported nearly $37.7 billion in PTCs that were either received in advance or claimed at the time of filing. A total of $4.5 billion in APTCs claimed by these filers was in excess of the amount of PTCs to which they were entitled, an increase from $3.7 billion in Processing Year 2018. A total of $1.3 billion of the amount of excess APTCs was not required to be repaid, which increased from $1 billion in Processing Year 2018.[23] The Exchanges have sole responsibility to determine eligibility to purchase insurance and the amount of the APTC an individual will receive. Figure 2 provides a comparison of PTC statistics for Processing Years 2017 through 2019.

[23] The Affordable Care Act limits the amount of tax that individuals with income between 100 percent and 400 percent of the Federal Poverty Line will have to repay.

Figure 2: PTC Statistics Processing Years 2017 Through 2019

	Processing Year 2017 as of May 4, 2017	Processing Year 2018 as of May 3, 2018	Processing Year 2019 as of May 2, 2019
Total Tax Returns With the PTC	**5.1 million**	**4.9 million**	**4.8 million**
Total PTC Amount (includes the APTC and the PTC)	$23.9 billion	$27.0 billion	$37.7 billion
Total APTC Amount	*$22.5 billion*	*$25.6 billion*	*$36.4 billion*
Total PTC Claimed at Filing in Excess of the APTC	*$1.4 billion*	*$1.4 billion*	*$1.3 billion*
Tax Returns in Which the PTC Equals the APTC Received			
Tax Returns	155,133	201,582	505,855
Total PTC Amount	$821.9 million	$1.7 billion	$5.3 billion
Tax Returns With Additional PTC – (taxpayer is entitled to more PTC than what was received in the APTC)			
Total Tax Returns	2.1 million	2.0 million	1.8 million
Total PTC Amount (includes APTC and PTC)	$9.7 billion	$11.8 billion	$14.4 billion
Total APTC Amount	*$8.3 billion*	*$10.4 billion*	*$13.0 billion*
Total PTC Claimed at Filing in Excess of APTC	*$1.4 billion*	*$1.4 billion*	*$1.3 billion*
Tax Returns With Excess APTC Payments – (taxpayer receives more APTC than PTC entitled to and has to repay)			
Total Tax Returns	2.8 million	2.7 million	2.6 million
Total PTC Amount	$7.5 billion	$9.8 billion	$13.5 billion
Total APTC Amount	$13.4 billion	$13.5 billion	$18 billion
Total APTC Reported in Excess of PTC	$5.8 billion	$3.7 billion	$4.5 billion
Total APTC Above the Repayment Limit (not repaid)	*$ 3.5 billion*	*$1.0 billion*	*$1.3 billion*
Total APTC Below the Repayment Limit (repaid)	*$ 2.3 billion*	*$2.7 billion*	*$3.2 billion*

Source: TIGTA analysis of Individual Master File posted tax return information as of May 4, 2017 (Cycle 18), May 3, 2018 (Cycle 18), and May 2, 2019 (Cycle 18). Totals may not add due to rounding.

Actions Were Taken to Address the Denial of Child and Dependent Care Credits to Eligible Taxpayers Reporting a Married Filing Separately Status

Our review found that, in response to our prior recommendation, the IRS is now allowing the Child and Dependent Care Credit to taxpayers who file Married Filing Separately and attest to being eligible to claim the credit. To address TIGTA's recommendation, the IRS added a checkbox to the TY 2018 Form 2441, *Child and Dependent Care Expenses*, for taxpayers who file with a Married Filing Separately filing status to indicate that they meet the requirements to take the credit when applicable. As of May 2, 2019, a total of 15,196 taxpayers filed returns with a Married Filing Separately filing status and were allowed $9.8 million in Child and Dependent Care Credits. Of these, 14,589 tax returns that were allowed $9.4 million in credits were e-filed. In addition, the IRS created a new business rule to reject e-filed tax returns for which the taxpayer claimed the Child and Dependent Care Credit but did not check the required checkbox indicating eligibility requirements were met. As of May 2, 2019, the IRS rejected 10,682 e-filed tax returns that did not check the box as required.

IRS employees have procedures to review paper tax returns with Child and Dependent Care Credit claims if the filing status on the tax return is Married Filing Separately. The tax return is reviewed to ensure that the taxpayer has checked the box on Form 2441 indicating they meet the requirements to claim the Child and Dependent Care Credit. If the taxpayer has not checked the box, the credit is not allowed, and the taxpayer is sent a notice stating that the credit was not allowed because they did not check the box on Form 2441.

In January 2018,[24] we reported that processes and procedures are needed to ensure proper treatment of claims for the Child and Dependent Care Credit for taxpayers filing as Married Filing Separately. Specifically, we determined that tax returns with a Married Filing Separately filing status claiming the Child and Dependent Care Credit were being disallowed during processing before the IRS determines if the taxpayer may be entitled to the credit due to an exception in the Internal Revenue Code. Our analysis found that there were 12,057 claims for $7.4 million in Child and Dependent Care Credits by taxpayers with a Married Filing Separately filing status. All of these claims were denied.

We recommended that the Commissioner, Wage and Investment Division, modify Form 2441 to ask taxpayers whether they fall under one of the exceptions to be able to file as Married Filing Separately and revise computer programs to allow the credit only when a taxpayer attests that he or she meets the exception by checking the applicable box. The IRS agreed with this recommendation.

[24] TIGTA, Ref. No. 2018-40-012, *Results of the 2017 Filing Season* (Jan. 2018).

Detecting and Preventing Tax Refund Fraud

As a result of redesigning Form 1040 and provisions of the Tax Cuts and Jobs Act, the IRS's fraud detection systems (RRP and Dependent Database) required updates. These updates were necessary to address changes in the location of data fields based on revisions to tax forms. For example, the IRS needed to ensure that detection filters are using the correct data because schemas[25] had been updated to accommodate the redesigned Form 1040. These updates included removing from detection filters data fields that no longer exist. If updates are not performed correctly, the IRS could select tax returns as potentially fraudulent when, in fact, the tax return is valid or the system might not identify tax returns having fraud characteristics.

As we reported in April 2019,[26] for the 2019 Filing Season, *************2***************
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As of April 27, 2019, the IRS reported that it identified 58,061 fraudulent (*i.e.*, non–identity theft) tax returns with approximately $345.5 million claimed in fraudulent refunds and prevented the issuance of $321 million (92.9 percent) of those refunds. This represents a 57.5 percent decrease over the number of tax returns identified during the same period last filing season. Figure 3 shows the number of fraudulent tax returns identified by the IRS for Processing Years 2017 through 2019, as of April 27, 2019, as well as the refund amounts that were claimed and stopped.

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[25] Schemas provide basic definitions for the tax form data elements and the interrelationships among the data elements, *e.g.*, what fields are required, field length, data type, and allowable field values.

[26] TIGTA, Ref. No. 2019-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Efforts* (Apr. 2019).

Figure 3: Fraudulent Tax Returns and Refunds Identified and Stopped in Processing Years 2017 Through 2019 (as of April 27, 2019) [27]

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refunds Identified	Amount of Fraudulent Refunds Stopped
2017	175,106	148,293	$1,958,545,455	$1,837,340,466
2018	136,484	121,255	$885,405,608	$801,945,857
2019	58,061	54,186	$345,496,923	$321,023,962

Source: IRS fraudulent tax return statistics for Processing Years 2017 through 2019 as of April 27, 2019.

Decrease in confirmed fraudulent returns (non–identity theft) as of April 2019 results from new initiative to suspend tax returns with income discrepancies

When we questioned IRS management as to the reduction in identified fraudulent returns, they stated that, for Processing Year 2019, the IRS is now suspending all tax returns selected for potential fraud treatment to provide additional time to see if the IRS receives third-party income documents that verify the income and withholding on the potentially fraudulent return. The IRS will suspend these tax returns during processing until either the third-party documents are available or June 15. For those returns for which a third-party income document is received, the IRS will determine if the tax return has good income and withholding or will send the tax return for further review if the income and withholding does not match. For those for which no third-party income document was received by June 15, the IRS will select these returns for fraud review treatment that will take additional time for the IRS to resolve. Consequently, according to IRS management, the number of tax returns identified as fraudulent decreased this filing season due to the longer suspense time. However, as of June 29, 2019, the IRS reported that it identified 112,633 fraudulent (*i.e.*, non–identity theft) tax returns with approximately $671.9 million claimed in fraudulent refunds and prevented the issuance of $634.8 million (94.5 percent) of those refunds.

Detection of tax returns involving identity theft

As of April 27, 2019, the IRS reported that it had identified more than 3 million tax returns with refunds totaling approximately $14.7 billion for additional review as a result of the identity theft filters. As of the same date, the IRS had confirmed 13,737 (0.5 percent) fraudulent tax returns of the more than 3 million and prevented the issuance of $184.2 million in fraudulent tax refunds. In Processing Year 2018, the IRS had confirmed 48,710 fraudulent tax returns and prevented the issuance of $616 million in fraudulent tax refunds as of April 30, 2018. This represents a

[27] Information is from the Integrity and Verification Operation Monthly Performance Comparison Reports that reflect preliminary results and are subject to change.

72 percent decrease from the number of tax returns identified and confirmed during the same period last filing season. IRS management stated that, for Processing Year 2019, they extended the allotted time these potential identity theft tax returns are held for review to allow taxpayers more opportunity to authenticate their identities with the IRS before classifying these returns as confirmed identity theft. Therefore, the number of tax returns that could be confirmed as identity theft took longer to resolve due to the additional time.

For the 2019 Filing Season, the IRS is using 193 filters to identify potential identity theft tax returns. Once identified, the tax returns are held during processing until the IRS can verify the taxpayer's identity. If the individual's identity cannot be confirmed, the IRS removes the tax return from processing in an effort to prevent the issuance of a fraudulent refund. Figure 4 shows the number of identity theft tax returns the IRS identified and confirmed as fraudulent in Processing Years 2017 through 2019.

Figure 4: Identity Theft Tax Returns Confirmed As Fraudulent in Processing Years 2017 Through 2019 (as of April 27, 2019)

Processing Year	Number of Identity Theft Returns
2017	75,797
2018	48,710
2019	13,737

Source: IRS fraudulent tax return statistics for Processing Year 2017 (as of April 29, 2017), Processing Year 2018 (as of April 30, 2018), and Processing Year 2019 (as of April 27, 2019).

In addition to suspending identified potentially fraudulent tax returns for income and withholding verification, the IRS continues to increase the number of fraudulent tax refunds detected and stopped from ever entering the tax processing system by rejecting e-filed tax returns and preventing paper tax returns from posting. For example, as of April 25, 2019, the IRS has locked taxpayer accounts of more than 40.8 million deceased individuals. This compares to approximately 36.4 million accounts locked as of April 26, 2018. When tax accounts are locked, e-filed tax returns are rejected and paper tax returns are prevented from posting to the Master File. According to the IRS, as of April 25, 2019, it had rejected 15,222 fraudulent e-filed tax returns and stopped 2,267 paper tax returns from posting to the Master File. We are conducting a separate review assessing the IRS's continued efforts to detect and prevent individual identity theft and plan to issue that report later this calendar year.[28]

[28] TIGTA, Audit No. 201940003, *Detection and Prevention of Individual Identity Theft.*

Screening of prisoner tax returns increased

To combat refund fraud associated with tax returns filed using prisoner Social Security Numbers, the IRS compiles a list of prisoners (the Prisoner File) received from the Federal Bureau of Prisons and State Departments of Corrections as well as Prisoner Update Processing System data from the Social Security Administration (SSA). These data files are used to identify for additional screening tax returns filed using a prisoner Social Security Number. As of April 27, 2019, the IRS reported that it identified for screening 40,995 potentially fraudulent tax returns filed by prisoners.[29] This represents a 44 percent increase over the number of tax returns identified during the same period last filing season. On March 15, 2019, the IRS was notified that there was an issue with the underlying data used to identify prisoner fraud that caused an increase in the number of tax returns selected. On April 23, 2019, the IRS corrected the prisoner file data; however, the number of prisoner tax returns had already been identified for screening. Figure 5 shows the number of prisoner tax returns identified for screening in Processing Years 2017 through 2019.

Figure 5: Prisoner Tax Returns Identified for Screening in Processing Years 2017 Through 2019 (as of April 27, 2019)

Processing Year	Number of Prisoner Tax Returns Identified for Screening
2017	31,735
2018	28,443
2019	40,995[30]

Source: IRS fraudulent tax return statistics for Processing Year 2017 (as of April 29, 2017); Processing Year 2018 (as of April 28, 2018); and Processing Year 2019 (as of April 27, 2019).

Providing Customer Service

The IRS provides assistance to millions of taxpayers via the telephone, its website (IRS.gov), and social media platforms as well as face-to-face assistance at its TAC and Volunteer Income Tax Assistance sites. The IRS provides self-assistance options that enable taxpayers to access the information they need 24 hours a day, seven days a week. The most notable self-assistance option is the IRS's public Internet site, IRS.gov. The IRS actively steers taxpayers to its website as the best source for answers to their tax questions. The IRS reported 444.2 million visits to IRS.gov this filing season as of May 3, 2019. In comparison, the IRS reported 410.1 million visits to IRS.gov for the 2018 Filing Season as of May 4, 2018.

[29] Tax returns filed using a prisoner's name and Social Security Number.
[30] Prisoner returns identified for Processing Year 2019 were selected prior to the IRS correcting the prisoner file.

The IRS website provides a number of online tools to assist taxpayers. These tools allow taxpayers to more effectively research tax law, check on the status of their refund, and evaluate withholding relative to the Tax Cuts and Jobs Act. For example:

- ***Interactive Tax Assistant*** – This tool is a tax law resource that takes taxpayers through a series of questions and provides them with responses to basic tax law questions. The IRS reports that from January 1 through May 3, 2019, there have been 925,856 requests completed.
- ***Where's My Refund?*** – This tool allows taxpayers to check the status of their refunds using the most up-to-date information available to the IRS. The IRS reports that, as of May 3, 2019, there have been approximately 330.4 million uses of the tool.
- ***Withholding Calculator*** – This calculator provides taxpayers with the ability to determine tax liability and withholding under the Tax Cuts and Jobs Act. The IRS reports that, as of April 30, 2019, there have been 4.2 million visits to the web page that contains general information on the *Withholding Calculator*, with 1.6 million completions of this calculator.

Finally, the IRS offers taxpayers the ability to obtain information and interact with the IRS using their mobile devices. For example, the IRS offers IRS2Go and uses various forms of social media, including YouTube, Twitter, Facebook, and Instagram. As of April 30, 2019, the IRS reports that the IRS2Go mobile application had approximately 8.8 million active users. As of May 3, 2019, there have been 983,065 views of IRS YouTube videos.[31] As of May 3, 2019, there are a total of 106,973 Twitter followers and 119,239 Facebook followers. In addition, as of May 7, 2019, there are 7,650 Instagram followers.

The toll-free telephone level of assistance dropped

As of May 3, 2019, taxpayers made approximately 56 million total attempts and more than 38 million net attempts[32] to contact the IRS by calling the various customer service toll-free telephone assistance lines. The IRS reports that approximately 18.6 million calls were answered with automation, and telephone assistors answered approximately 9.1 million calls and provided a 67.1 percent Level of Service with a 9-minute Average Speed of Answer. Prior to the partial Government shutdown, the IRS forecasted an 80 percent Level of Service for the 2019 Filing Season. However, after the shutdown ended, the IRS revised the Level of Service forecast to 61 percent.[33] Figure 6 shows a comparison of IRS toll-free telephone statistics as of May 3, 2019, for Filing Seasons 2018 and 2019.

[31] For period January 1, 2019, through May 3, 2019.
[32] Total call attempts represent calls received during open and after hours. Total net call attempts represent calls received during open hours.
[33] IRS management explained that they lowered the Level of Service target from 80 percent to 61 percent after considering the enacted level of funding, pay raises, and the delayed training that overlapped with the filing season.

Figure 6: Toll-Free Telephone Services Statistics for Filing Seasons 2018 and 2019 (as of May 3, 2019)

Statistic	Filing Season 2018	Filing Season 2019
Assistor Calls Answered	11,753,000	9,134,000
Level of Service	80.2%	67.1%
Average Speed of Answer (Minutes)	5	9

Source: IRS management information reports as of May 3, 2019.

In June 2019, we reported[34] that the IRS's telephone performance measures do not reflect overall call demand for IRS telephone assistance or performance. Specifically, the IRS's Level of Service measurement does not include the total number of taxpayer calls to the IRS during a given time frame. Rather, the IRS only includes selected toll-free telephone lines in its calculation. As such, TIGTA computed the Level of Access,[35] which reflects the total of all callers seeking assistance that ultimately receive the assistance from the IRS.[36] As of May 3, 2019, the Level of Access we computed was 59.5 percent.

TAC assistance

For the 2019 Filing Season, the IRS continues to use its appointment service for all TACs. Although the IRS reports having 358 TACs for the 2019 Filing Season, 33 TACs are not open because they have not been staffed as of April 15, 2019. The IRS reports that, as of May 3, 2019,[37] IRS employees answered 1,667,325 calls to schedule an appointment. Of these, 840,392 necessitated the taxpayer scheduling an appointment to visit a TAC. The remaining 826,933 taxpayers were assisted at the time of contacting the IRS to make an appointment and, as a result, did not require a visit to a TAC.

The IRS also reports that, as of May 3, 2019, it provided assistance to 148,225 taxpayers who did not have an appointment. Overall, the IRS reports approximately 1.4 million taxpayers were provided face-to-face service. Figure 7 shows a comparison of IRS taxpayer assistance and appointment service statistics as of May 3, 2019, for Fiscal Years 2018 and 2019.

[34] TIGTA, Ref. No. 2019-40-041, *Telephone Performance Measures Do Not Provide an Accurate Assessment of Service to Taxpayers* (June 2019).
[35] The Level of Access is computed by taking the sum of Assistor Calls Answered (9,134,000) and Automated Calls Answered (18,557,000) divided by Total Dialed Number Attempts Open Hours (46,512,101).
[36] The IRS does not recognize or calculate the Level of Access as an official telephone measure.
[37] For Fiscal Year 2019 – October 1, 2018, through May 3, 2019.

Figure 7: Taxpayer Assistance and Appointment Service Statistics for Fiscal Years 2018 and 2019 (as of May 3, 2019)

Statistic	Fiscal Year 2018	Fiscal Year 2019
Assistor Calls Answered (for Appointments)	2.1 million	1.7 million[38]
Calls Not Requiring an Appointment	*1.2 million*	*0.8 million*
Appointments Scheduled	*0.9 million*	*0.8 million*
Face-to-Face Assistance in a TAC	1.7 million	1.4 million
Walk-In Exceptions (No Scheduled Appointment)	0.1 million	0.1 million

Source: IRS management information reports as of May 4, 2018 (for Fiscal Year 2018), and as of May 3, 2019 (for Fiscal Year 2019).

In addition to the services offered via the TAC appointment line and at the TACs themselves, the IRS also offers these additional face-to-face initiatives:

- ***Virtual Service Delivery*** – This initiative is an effort to expand face-to-face services to taxpayers when a TAC is not in their geographic area. Taxpayers must make an appointment. Virtual Service Delivery integrates video and audio technology to allow taxpayers to see and hear an IRS assistor located at a remote TAC, giving taxpayers "virtual face-to-face interactions" with assistors. For the 2019 Filing Season, as of May 3, 2019, the IRS offers Virtual Service Delivery at 36 community partner sites. The IRS reports that, as of May 3, 2019,[39] a total of 620 taxpayers have used the service.
- ***Co-located Sites with the SSA*** – This initiative was implemented to comply with Section 3 of Office of Management and Budget Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations*, which requires agencies to move aggressively to dispose of excess properties held by the Federal Government and make more efficient use of the Government's real estate assets. For the 2019 Filing Season, the IRS has placed employees in five SSA locations. The IRS reports that, as of May 3, 2019, 1,410 taxpayers have used the service.

TIGTA reports that data-driven model should be used to optimize locations for taxpayers seeking face-to-face assistance. In May 2019,[40] we reported that the IRS developed and deployed a new appointment scheduling tool (called the Field Assistance Scheduling Tool) in February 2018. This tool is more user friendly and allows the IRS to analyze data about taxpayers who seek face-to-face assistance, such as the percentage of taxpayers who make appointments and the number of taxpayer issues resolved during the first contact with an assistor.

[38] The number presented does not total the sum of the following two numbers due to rounding.
[39] For Fiscal Year 2019 – October 1, 2018, through May 3, 2019.
[40] TIGTA, Ref. No. 2019-40-029, *The Internal Revenue Service Did Not Follow Congressional Directives Before Closing Taxpayer Assistance Centers; a Data-Driven Model Should Be Used to Optimize Locations* (May 2019).

The taxpayer data also allow the IRS to more efficiently allocate its resources and assist taxpayers before the tax filing deadline.

We recommended that a data-driven model be used to support decisions on the locations of current Virtual Service Delivery and SSA co-located sites and for future expansion of these sites. The IRS agreed with this recommendation. IRS management responded that they plan to expand Virtual Service Delivery sites into densely populated areas and will use their Geographic Coverage Model[41] to provide data that will help inform their decisions on locations. However, management indicated that use of this model would not provide meaningful data to determine co-located sites with the SSA or rural and underserved locations. We disagree. The SSA's website has a list of 1,354 field offices that, in conjunction with the IRS's model, could be used to identify optimal co-located sites with the SSA.

Assistance at Volunteer Program sites decreased slightly

The Volunteer Program provides no-cost Federal tax return preparation and e-filing to underserved taxpayer segments, including low-income, elderly and disabled, rural, limited-English-proficient, and Native American taxpayers. Volunteer Program sites prepared approximately 3.5 million tax returns as of April 28, 2019, at the 10,921 Volunteer Program sites available nationwide during Fiscal Year 2019. Figure 8 shows the number of tax returns prepared by volunteers from Fiscal Years 2017 through 2019 as of April 28, 2019.

Figure 8: Volunteer Program Statistics for Fiscal Years 2017 Through 2019 (as of April 28, 2019)

	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	% Change (Fiscal Year 2018 to Fiscal Year 2019)
Tax Returns	3,463,543	3,463,544	3,458,737	-0.1%
Sites	11,469	11,044	10,921	-1.1%

Source: IRS management information reports containing Fiscal Years 2017 through 2019 information. Percentages are rounded.

The Accounts Management function over-aged inventory increased

As of May 4, 2019, the IRS reported more than 905,000 cases in its over-aged inventory, which is an increase of 22.5 percent when compared to the 2018 Filing Season. The IRS reported nearly 739,000 cases in its over-aged inventory as of May 5, 2018. The IRS attributes the increase in over-aged inventory to the Government shutdown. The 35-day shutdown coincided

[41] The Geographic Coverage Model uses tax return and U.S. census data to identify optimal locations for the IRS to assist the highest number of taxpayers who live within a 30-, 40-, or 50-minute drive of a location.

with the IRS's final push on inventory prior to the start of the filing season and the associated increase in phone demand. All inventories continued to age during the shutdown.

Accounts Management function inventory includes, but is not limited to, amended tax returns, responses to taxpayer notices, and identity theft cases and is generally considered over-aged when it has been in inventory for more than a designated number of calendar days. Staff responsible for working taxpayer correspondence are divided between working taxpayer correspondence and staffing the customer service telephone lines. In order to address the overage, the IRS is scheduling targeted overtime and continues to focus all available resources to decrease the over-aged inventory. Figure 9 provides a comparison of Accounts Management function inventory for Fiscal Years 2018 and 2019 as of May 4, 2019.

Figure 9: Comparison of Accounts Management Function Inventory for Fiscal Years 2018 and 2019 (as of May 4, 2019)

	2018	2019	Percentage Change
Total Inventory	2,364,320	2,284,778	-3.4%
Over-Aged Volume	738,959	905,174	22.5%
Percentage Over-Aged	31.3%	39.6%	26.5%

Source: IRS Accounts Management Inventory Report – Inventory Age Reports.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate whether the IRS timely and accurately processed individual paper and e-filed tax returns during the 2019 Filing Season.[1] To accomplish our objective, we:

I. Monitored online news outlets and forums to identify any preparation, filing, or processing issues that taxpayers are experiencing.

II. Determined if IRS monitoring systems indicate that individual tax returns were being processed timely and accurately.

   A. Monitored key IRS indicators including, but not limited to, the e-file business rule reports, volume of tax return receipts, and applicable IRS Internet and intranet websites.

   B. Identified volumes of paper and e-filed tax returns received through May 3, 2019, from the IRS Weekly Filing Season reports and compared the statistics to the same period for the 2018 Filing Season.

III. Determined if the IRS had a systemic process to allow the lower threshold waiver for the estimated tax penalty relief on TY 2018 tax returns and evaluated the IRS's procedures established for allowing the penalty relief.

IV. Ensured that the business rules[2] associated with the 26 key Tax Cuts and Jobs Act of 2017[3] provisions and the redesigned Form 1040, *U.S. Individual Income Tax Return*, worked as intended.

   A. Obtained a list of the business rules associated with the 26 key provisions in the Tax Cuts and Jobs Act and the redesigned Form 1040.

   B. Reviewed and quantified the business rule results using IRS reports. We ensured that the disabled and deleted rules were not populating in error.

   C. Evaluated the accuracy of the new and revised business rules.

[1] See Appendix VIII for a glossary of terms.
[2] Business rules are used to validate information included on e-filed tax returns for acceptance into tax return processing. The IRS will reject e-filed tax returns from processing when the tax return does not meet a business rule.
[3] Pub. L. No. 115-97, 131 Stat. 2054.

D. Determined if the business rules are accurately rejecting tax returns meeting the criteria. Additionally, we determined if the business rules are accurately accepting tax returns when the reject conditions are not present. To accomplish this, we selected a judgmental sample[4] of five tax returns that had the reject code present. We used a judgmental sample because we could not determine the population of total rejected tax returns due to data limitations. When a business rule had not occurred at least five times, we reviewed all that had occurred. If a business rule had not occurred, we were unable to review it.

V. Ensured that the error resolution codes[5] associated with the 26 key Tax Cuts and Jobs Act provisions and the redesigned Form 1040 worked as intended.

A. Obtained a list of the error resolution codes associated with the 26 key provisions in the Tax Cuts and Jobs Act and the redesigned Form 1040.

B. Evaluated the accuracy of any new or revised error codes.

C. Reviewed the IRS procedures.

D. Analyzed data extracts of the daily Error Resolution files to ensure that data are accurate.

E. Determined if the error resolution codes are accurately selecting tax returns meeting the criteria. Additionally, we determined if the error resolution codes are accurately allowing tax returns to process when the reject conditions are not present.

VI. Evaluated the accuracy of QBI deductions claimed on Form 1040.

A. Quantified the number of tax returns selected by the QBI deduction business rules and error resolution codes.

B. Determined that each tax return claiming the deduction for QBI has an entry that supports that the taxpayer has a business.

C. Ensured that tax returns with QBI deductions that exceed the statutory limit were stopped during processing and quantified the impact.

D. Identified the number of tax returns processed and posted as of May 2, 2019, that appears to qualify for the QBI deduction but was not claimed by the taxpayer.

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[4] A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.
[5] Error resolution codes validate the accuracy of paper and e-filed tax returns during processing. When a tax return is identified with an error condition, the IRS suspends the tax return from processing and sends the tax return to a tax examiner to correct the error. Once corrected, the IRS continues to process the tax return.

VII. Ensured that IRS processes were established to include the expanded preparer due diligence requirements for returns filing with the Head of Household filing status as well as returns with the Credit for Other Dependents.

VIII. Followed up on findings previously reported by TIGTA and quantified the impact of identified errors.

A. Evaluated tax returns for which the taxpayer received the AOTC and did not provide an educational institution EIN and quantified the impact.

B. Determined if Married Filing Separately filing status tax returns are properly limited for certain tax items at processing and quantified the impact.

C. Determined if the IRS's processes and procedures identify and prevent the issuance of the EITC and the ACTC payments when the income reported on the tax returns is not supported by Forms W-2, *Wage and Tax Statement*, and Forms 1099-MISC, *Miscellaneous Income*, reporting nonemployee compensation.

1. Determined the number of Forms W-2 and Forms 1099-MISC reporting nonemployee compensation that were submitted and the number of employers who submitted the forms as of May 2, 2019.

2. Determined how many Forms W-2 and Forms 1099-MISC reporting nonemployee compensation were available to support wages or other income on the tax returns claiming either the EITC or ACTC as of May 2, 2019.

3. Determined the number of refund tax returns with an income discrepancy of $1,000 or greater from what was reported on the tax returns to what was reported on the Forms W-2 and determined how many were not selected for further review by the IRS.

4. Determined the number of refund tax returns claiming the EITC and/or the ACTC with a Schedule C, *Profit or Loss From Business*, or Schedule F, *Profit or Loss From Farming*, and at least one Form 1099-MISC available for IRS review that were identified for review before May 2, 2019.

IX. Provided statistics related to the IRS's implementation of the Affordable Care Act tax provisions.

X. Identified results of the IRS's tax refund fraud programs, including identity theft and prisoner refund fraud.

XI. Identified the impact the 26 key Tax Cuts and Jobs Act provisions and the redesigned Form 1040 had on the IRS's fraud detection activities. This includes the RRP and the Dependent Database. We identified the changes made to the RRP and the Dependent Database based upon the Tax Cuts and Jobs Act and the redesigned Form 1040.

XII. Identified results for the IRS TAC Program.

XIII. Identified results for the IRS Toll-Free Telephone Assistance Program.

XIV. Identified results for the IRS Volunteer Program.

XV. Monitored the Accounts Management function over-aged inventory.

XVI. Identified results for the IRS self-assistance through IRS.gov.

XVII. Provided statistics on the various forms of social media platforms that the IRS used to offer taxpayers a way to obtain information, such as the number of YouTube views, Twitter followers, Facebook followers, Instagram followers, and IRS2Go mobile application users.

XVIII. Assessed the IRS's hiring plans for Submission Processing functions to ensure that tax returns are processed correctly and timely.

XIX. Evaluated any revisions planned for the TY 2019 Form 1040 and related schedules as well as the Form 1040-SR, *U.S. Tax Returns for Seniors.*

XX. Evaluated the IRS's post-processing compliance plans for detecting potential false claims associated with specific provisions included in the Tax Cuts and Jobs Act.

XXI. Evaluated the new Form W-4, *Employee's Withholding Certificate*, and the new online tax withholding estimator.

Data validation methodology

During this review, we obtained extracts from the IRS's Individual Master File (IMF), Individual Return Transaction File (IRTF), Error Resolution, Electronic Tax Administration Research and Analysis System, and Modernized e-file databases, Information Returns Master File, and Electronic Fraud Detection System for Processing Year 2019 that were available on TIGTA's Data Center Warehouse or extracted by TIGTA directly from the IRS. Further, the IRS provided TIGTA with an extract of the taxpayers they identified were eligible for relief of the estimated tax penalty. 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 or the Employee User Portal. 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 tests, 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: the process for planning, organizing, directing, and controlling program operations for the 2019 Filing Season. We evaluated these controls by monitoring IRS weekly production meetings, reviewing IRS procedures, and reviewing IRS reports.

Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Deputy Commissioner for Services and Enforcement
Commissioner, Wage and Investment Division
Director, Accounts Management, Wage and Investment Division
Director, Business Modernization Office, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
Director, E-File Services, Wage and Investment Division
Director, Field Assistance, Wage and Investment Division
Director, Joint Operation Center, Wage and Investment Division
Director, Stakeholder Partnership, Education, and Communications, Wage and Investment Division
Director, Strategy and Finance, Wage and Investment Division
Director, Submission Processing, Wage and Investment Division
Director, Enterprise Audit Management

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:

- Taxpayer Rights and Entitlements – Potential; $41,744,943 in estimated tax penalties were assessed for 461,702 taxpayers who qualified for the waiver (see page 6).

Methodology Used to Measure the Reported Benefit:

On March 29, 2019, we recommended that the IRS implement a systemic process to not assess a penalty for taxpayers who qualified for relief of the estimated tax penalty, regardless of whether a waiver was filed by the taxpayer. IRS management responded that they could not do this at the time but later implemented a process to abate the penalty for any taxpayers who were assessed a penalty but appear eligible for relief. As of July 25, 2019, the IRS identified 443,146 taxpayers with estimated tax penalties totaling $39,789,518. The tax accounts for these taxpayers contained a Transaction Code 170 or 176 indicating an estimated tax payment penalty on the IMF for TY 2018. These taxpayers met the IRS's criteria for abating the penalty. This criteria is identified when the IMF data include any of the transaction codes for tax payments (Transaction Codes 430, 610, 640, 650, 660, 670, 710, and 716) and Federal tax withholding that equaled or exceeded 80 percent of their estimated tax base.

As of May 23, 2019, our analysis identified an additional 18,556 taxpayers with net estimated tax penalties totaling $1,955,425 that contained a Transaction Code 170 or 176 (which had not been reversed) on the IMF Other Tax Module Transactions Table for TY 2018, which the IRS had not identified. These taxpayers met the criteria for abating the penalty, but the IRS did not identify them. Our analysis included all of the IRS transactions codes for tax payments listed previously in addition to Transaction Codes 666, 700, 706, and 760 that the IRS did not include. These payments and Federal tax withholding on the IRTF equaled or exceeded 80 percent of the total tax computed by the IRS as shown on the IRTF.

$41,744,943 = ($39,789,518 + $1,955,425)

461,702 taxpayers = (443,146 + 18,556)

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 1,015 taxpayers whose tax returns were incorrectly rejected based on insufficient business rule programming (see page 10).

Methodology Used to Measure the Reported Benefit:

We obtained rejected tax return data for TY 2018 from an extract of the Electronic Fraud Detection System (EFDS)[1] and limited it to tax returns rejected on or before May 2, 2019.

Rejected due to checkboxes: We limited the EFDS data to tax returns that rejected due to six business rules (IND-340-01, IND-341-01, IND-353-01, IND-354-01, IND-356-01, and IND-357-01) that we identified were incorrectly rejecting tax returns that reported a filing status other than Married Filing Jointly or Married Filing Separately. These tax returns rejected because the IRS incorrectly computed an increase to the standard deduction by considering checkboxes mistakenly checked by the taxpayer for a spouse when no spouse was reported on the tax return. We computed the correct increase to the standard deduction by considering only the checkboxes for the primary filer. We compared our computation to what the taxpayer reported on his or her rejected tax return. When the amounts were the same, we concluded that the tax return was incorrectly rejected. We identified 41 tax returns that rejected incorrectly for 36 taxpayers.

Rejected due to Other Adjustments Statement: We limited the EFDS data to tax returns that rejected due to business rule F1040-060-01 that we identified was incorrectly rejecting tax returns that do not report an amount for other adjustments to income but inadvertently has a blank Other Adjustments Statement attached to the return. These tax returns rejected because the IRS required a non-zero value be present when an Other Adjustments Statement was present. We searched for tax returns that had an Other Adjustments Statement present but only had zero values and identified 1,385 tax returns that rejected incorrectly for 979 taxpayers.

1,015 taxpayers = (36 + 979)

Type and Value of Outcome Measure:

- Revenue Protection – Potential; $72,809 on 47 tax returns affected by a business rule that did not reject claims for the CTC when the child claimed had an ATIN (see page 10).

Methodology Used to Measure the Reported Benefit:

We obtained TY 2018 e-filed tax return data from the Modernized Tax Return Database,[2] which contained dependent information. We analyzed each dependent Taxpayer Identification Number

[1] An automated system used to maximize fraud detection at the time tax returns are filed to eliminate the issuance of questionable refunds.
[2] The legal repository for original e-filed returns received by the IRS through the Modernized e-File system.

to identify any ATINs. We matched those tax returns containing ATINs to the IRTF to determine the amount of the CTC that was claimed. We allocated a percentage of the CTC claimed to the ATIN based upon the total number of dependents. For example, if one ATIN was identified and the CTC was received for two dependents, we would attribute 50 percent of the CTC claimed to the ATIN. As of May 2, 2019, we identified 58 tax returns that should have been rejected with CTC claims based on a dependent with an ATIN, totaling $93,770. We identified 11 tax returns that did not receive the CTC by researching tax returns that had a difference in the CTC reported by the taxpayer and the CTC computed by the IRS. For these 11 tax returns, the IRS properly changed the CTC to the Credit for Other Dependents, which allows the use of an ATIN. The remaining 47 tax returns received $72,809 in CTCs based on a dependent with an ATIN.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $307,377 on 198 tax returns affected by a business rule that did not reject claims for the ACTC when necessary (see page 10).

Methodology Used to Measure the Reported Benefit:

We obtained TY 2018 e-filed tax return data from the Modernized Tax Return Database, which contained dependent information. We analyzed each dependent Taxpayer Identification Number to identify any ITINs or ATINs. We matched tax returns containing ITINs or ATINs to the IRTF to determine the amount of ACTC claimed. We allocated a percentage of the ACTC claimed to the ITIN/ATIN based upon the total dependents. For example, if one ITIN/ATIN was identified and the ACTC was received for two dependents, we would attribute 50 percent of the ACTC claimed to the ITIN/ATIN. As of May 2, 2019, we identified 91 tax returns that should have been rejected with ACTC claims based on a dependent with an ITIN/ATIN, totaling $132,671. We also matched these 91 tax returns to the IMF Other Tax Module Transactions Table to identify Transaction Codes 766 and 767 with a Credit Reference Number 336 identifying the ACTC received. We identified 15 tax returns that did not receive the ACTC. The remaining 76 tax returns received $106,479 in ACTCs based on a dependent with an ITIN/ATIN.

We also obtained TY 2018 tax returns with a claim for the ACTC greater than $1,400 from the IRTF. We computed the maximum amount of ACTC that the tax return was entitled to receive by multiplying the number of dependents by $1,400. We then limited our results to those without an ITIN/ATIN as a result of the analysis previously discussed. Because a business rule affects only e-filed tax returns, we limited our results to e-filed tax returns. As of May 2, 2019, we identified 122 e-filed tax returns that claimed and received ACTCs over the limit of $1,400 per child for the refundable ACTC. These 122 tax returns received $200,898 in ACTCs over the limit per child.

$307,377 = ($106,479 + $200,898)

198 tax returns = (76 + 122)

Type and Value of Outcome Measure:

- Revenue Protection – Actual; $1,344,703 due to QBI deduction amounts that were over the statutory limit on 2,889 tax returns properly rejecting due to two new business rules (see page 10).

Methodology Used to Measure the Reported Benefit:

In March 2019,[3] we recommended that the IRS ensure that computer programming was implemented to identify tax returns exceeding the statutory limitations at the time tax returns were processed. In response, the IRS developed two business rules (F1040-439 and F1040-440) to identify tax returns with QBI deductions that exceeded the statutory limitation. We obtained rejected tax return data for TY 2018 from the EFDS and limited them to tax returns that rejected on or prior to May 2, 2019. We limited the data to tax returns that rejected due to the two QBI business rules that the IRS created. The IRS rejected 13,226 tax returns with QBI claims in excess of the statutory limit for the two business rules. However, we found 9,029 (68 percent) tax returns were erroneously rejected prior to the start of the filing season because the IRS did not include a dollar tolerance for de minimis rounding that causes the QBI deduction to barely exceed the 20 percent limitation. The IRS identified and fixed this rounding error for the business rules prior to the start of the filing season.

The IRS correctly rejected 4,197 (32 percent) tax returns with QBI claims in excess of the statutory income limitation totaling $349,592,506. These 4,197 rejected tax returns were filed by 2,889 taxpayers. When the rejected tax returns differed, we kept the rejected tax return with the lowest taxable income so that we had only one rejected tax return per taxpayer. We computed the correct taxable income per tax return as follows: AGI less the total itemized or standard deduction less the maximum allowable QBI deduction that we computed. We determined that the average of the corrected taxable income for all 2,889 tax returns was $37,153. Using the tax table for TY 2018, we found that the lowest tax (for filing status Married Filing Jointly) was $4,080, for an actual tax rate of 11 percent ($4,080 / $37,153). We also determined that the total increase to taxable income for all 2,889 tax returns was $12,224,571. As a result, we estimate that the IRS implementing our recommendation resulted in the protection of $1,344,703 ($12,224,571 x 11 percent).

Type and Value of Outcome Measure:

- Increased Revenue – Potential; $2,264,703 for 7,054 tax returns with QBI deduction amounts that were over the statutory limit and sent to Error Resolution but not corrected (see page 10).

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[3] TIGTA, Ref. No. 2019-44-022, *Tax Cuts and Jobs Act: Implementation of the Qualified Business Income Deduction* (Mar. 2019).

Methodology Used to Measure the Reported Benefit:

In March 2019, we recommended that the IRS ensure that computer programming was implemented to identify tax returns exceeding the statutory limitations at the time tax returns were processed. In response, the IRS developed an error resolution code (EC 248) to identify tax returns with QBI deductions that exceed the 20 percent deduction limitation. We obtained a file of tax returns identified for error resolution review and queried for tax returns with the error resolution code that the IRS developed in response to our prior recommendation. We identified 188,261 tax returns. We matched these tax returns to the IRTF to determine the amount of the QBI deduction claimed. Because the IRTF represents corrected data after error resolution review, we were unable to assess the true amount of the QBI deduction claimed by the taxpayer or the amount of revenue protected as a result of our prior recommendation. However, we found that 7,719 (4 percent) of the 188,261 tax returns with QBI deductions totaling $58,699,743 in excess of the statutory limit were not corrected by error resolution, as the corrected IRTF data still showed that the QBI deduction allowed by the IRS exceeded the statutory limitation by more than one dollar.

These 7,719 tax returns were filed by 7,717 taxpayers. We removed two tax returns that had not posted to the IMF. We also removed 663 tax returns because these tax returns are included in the following QBI deduction outcome (38,065) that relates to QBI deductions without a schedule commonly associated with a business and for which the taxpayer did not have a Form 1099-DIV, *Dividends and Distributions*, reporting any real estate investment trust dividend income. We computed the correct taxable income per tax return as follows: AGI less the total itemized or standard deduction less the maximum allowable QBI deduction that we computed. We determined that the average of the corrected taxable income for all 7,054 (7,719 - 2 - 663) tax returns was $16,557. Using the tax table for TY 2018, we found that the lowest tax (for filing status Married Filing Jointly) was $1,658, for an actual tax rate of 10 percent ($1,658 / $16,557). We also determined that the total increase to taxable income for all 7,054 tax returns was $22,647,031. As a result, we estimate that the IRS correcting these tax returns would result in an increase of $2,264,703 ($22,647,031 x 10 percent).

Type and Value of Outcome Measure:

- Increased Revenue – Potential; $5,934,769 for 38,065 tax returns with QBI deductions without a schedule commonly associated with a business (Schedule C, E (*Supplemental Income and Loss*), or F) and where the taxpayer did not have a Form 1099-DIV reporting any real estate investment trust dividend income (see page 10).

Methodology Used to Measure the Reported Benefit:

In March 2019, we recommended that the IRS establish a process to identify and evaluate tax returns with claims for QBI deductions that do not include a schedule commonly associated with a business (Schedule C, E, or F) and do not list real estate investment trust dividend income. Although the IRS agreed with this recommendation, actions were not taken to identify these types of claims during the 2019 Filing Season at the time tax returns were processed. We searched the IRTF as of May 2, 2019, for tax returns with an amount for the QBI deduction. We then matched back to the IRTF to determine whether a Schedule C, E, or F was reported. We also matched the primary and spouse Taxpayer Identification Numbers from the tax returns with a QBI deduction to the Payee Taxpayer Identification Numbers from Forms 1099-DIV on the Information Returns Master File[4] to identify instances in which the Section 199A dividend amount was greater than zero. We identified 38,075 tax returns with QBI deduction claims totaling $43,822,273 for which the filer did not include a schedule commonly associated with a business (Schedule C, E, or F) and did not have a Form 1099-DIV reporting any Section 199A dividend income.

These 38,075 tax returns were filed by 38,065 taxpayers. We removed 10 tax returns that had not posted to the IMF. We computed the correct taxable income per tax return as follows: AGI less the total itemized or standard deduction less the maximum allowable QBI deduction that we computed. We determined that the average of the corrected taxable income for all 38,065 tax returns was $122,916. Using the tax computation worksheet for TY 2018, we found that the lowest tax (for filing status Married Filing Jointly) was $18,921, for an actual tax rate of 15.4 percent ($18,921/ $122,916). We also determined that the total increase to taxable income for all 38,065 tax returns was $38,537,462. As a result, we estimate that the IRS implementing our recommendation to identify these tax returns at filing would result in an increase of $5,934,769 in tax ($38,537,462 x 15.4 percent).

Type and Value of Outcome Measure:

- Taxpayer Burden – Actual; 412 taxpayers affected for delaying refunds on tax returns claiming casualty and theft loss (see page 10).

Methodology Used to Measure the Reported Benefit:

We found that the IRS was not allowing casualty and theft losses reporting a disaster declaration number containing the letters "EM." The IRS agreed with our finding; however, the corrective action was not implemented until March 17, 2019. Prior to March 17, 2019, the IRS unnecessarily delayed the processing of tax returns claiming losses greater than or equal to $5,000 that contained an "EM" designation by placing an unallowable code of '83' on the tax account. Using IRTF data as of May 2, 2019, we obtained TY 2018 tax returns with a Form 4684, *Casualties and Thefts*, for which the taxpayer claimed a casualty and theft loss greater than or equal to $5,000 and for which the disaster declaration number was between 'EM 0000' and 'EM 3600.' We ensured that the loss computed on Form 4684 was also reported on Schedule A, *Itemized Deductions*, and was not limited. We matched these tax returns to the IRTF to identify those with an unallowable code of '83.' Our analysis identified 412 e-filed tax returns that were identified as having the "EM" designation that were claiming refunds. These

[4] A database containing data from Information Returns, also called "payer documents" or "third-party returns."

refunds were delayed as a result of the IRS unnecessarily selecting these tax returns for manual review prior to implementing corrective action.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; $35,292,481 for 7,715 tax returns with casualty and theft loss deductions that were not supported by the required disaster declaration number (see page 10).

Methodology Used to Measure the Reported Benefit:

For TY 2018, taxpayers were instructed to report a disaster declaration number on Form 4684 to claim a casualty and theft loss deduction. Using IRTF data as of May 2, 2019, we identified TY 2018 tax returns with a Form 4684 with a casualty and theft loss greater than zero. The casualty and theft loss could either be the amount claimed on Schedule A line 15, which is limited to 10 percent of the AGI, or the amount claimed on Schedule A line 16 (but restricted to only the amount indicated on Form 4684). We ensured that the loss computed on Form 4684 was also reported on Schedule A. We identified 52,011 tax returns that claimed casualty and theft losses totaling $1,280,511,191. We then determined whether these tax returns contained a disaster declaration number. We identified 7,761 tax returns without a disaster declaration number or with a disaster declaration number that was not valid (did not contain the letters "DR" or "EM").

These 7,761 tax returns were filed by 7,758 taxpayers. We removed three tax returns that had not posted to the IMF. We also removed 43 tax returns with a standard deduction because we found that the casualty and theft loss was already reducing the taxable income computed by the IRS for these cases. When the taxable income originally computed by the IRS was greater than $0, we computed the correct taxable income by adding back the casualty and theft loss to the total taxable income originally computed by the IRS. When the taxable income originally computed by the IRS was equal to $0, we computed the correct taxable income as follows: AGI computed by the IRS less the QBI deduction allowed by the IRS less the standard deduction the taxpayer would be allowed based upon filing status. We determined that the average of the corrected taxable income for all 7,715 tax returns was $92,657. Using the tax tables for TY 2018, we found that the lowest tax (for filing status Married Filing Jointly) was $12,268, for an actual tax rate of 13.2 percent ($12,268 / $92,657). We also determined the total increase to taxable income for all 7,715 tax returns was $267,367,284. As a result, we estimate that the IRS implementing our recommendation to identify these tax returns at filing would result in an increase of $35,292,481 ($267,367,284 x 13.2 percent).

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $608,544 in refundable AOTCs for 938 e-filed tax returns with a claim for the refundable AOTC that did not include the educational institution EIN as required or had an obviously invalid educational institution EIN (see page 21).

Methodology Used to Measure the Reported Benefit:

Using IRTF data as of May 2, 2019, we identified TY 2018 tax returns with tentative AOTCs on Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits)*, greater than zero. From the IRTF, we obtained all data fields from the Form 8863, including the student Taxpayer Identification Numbers and the educational institution EINs. We also obtained the refundable AOTC amounts received by matching to the IMF Other Tax Module Transactions Table and identifying Transaction Codes 766 and 767 (reversal) with a Credit Reference Number 260. We identified tax returns for which all educational institution EINs were missing when a student Taxpayer Identification Number was present. We identified 938 e-filed tax returns with refundable AOTC claims totaling $608,544 whereby the taxpayer did not provide the required institution EIN on Form 8863 or provided an obviously invalid EIN.

Type and Value of Outcome Measure:

- Revenue Protection – Potential; $708,876 in nonrefundable AOTCs received by 938 e-filed tax returns with a claim for the nonrefundable AOTC that did not include the educational institution EIN as required or had an obviously invalid educational institution EIN (see page 21).

Methodology Used to Measure the Reported Benefit:

Using IRTF data as of May 2, 2019, we identified TY 2018 tax returns with tentative AOTCs on Form 8863 greater than zero. From the IRTF, we obtained all data fields from the Form 8863, including the student Taxpayer Identification Numbers and the educational institution EINs. We also obtained the education credit amounts from the IRTF. We identified tax returns for which all educational institution EINs were missing when a student Taxpayer Identification Number was present. We identified 938 e-filed tax returns with nonrefundable AOTC claims totaling $708,876 whereby the taxpayer did not provide the required institution EIN on Form 8863 or provided an obviously invalid EIN.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Actual; $9,426,450 in Child and Dependent Care Credit allowed for 14,589 taxpayers reporting a Married Filing Separately filing status (see page 25).

Methodology Used to Measure the Reported Benefit:

In January 2018, we reported that claims for the Child and Dependent Care Credit by taxpayers with a Married Filing Separately status were being denied. We recommended that the IRS modify Form 2441, *Child and Dependent Care Expenses*, to ask taxpayers whether they fall under one of the exceptions to be able to file as Married Filing Separately and to revise computer programs to allow the credit only when a taxpayer attests that he or she meets the exception by checking the applicable box. To address our recommendation, for TY 2018, the IRS added a checkbox to Form 2441 for taxpayers who file with a Married Filing Separately filing status to indicate that they meet the requirements to take the credit when applicable. Using IRTF data as of May 2, 2019, we identified 15,196 taxpayers who filed TY 2018 tax returns with a Married Filing Separately filing status and were allowed $9,788,599 in Child and Dependent Care Credits by the IRS. Of the 15,196, we identified 14,589 e-filed tax returns. We then matched the e-filed tax returns to Modernized Tax Return Database data to determine if the eligibility requirement checkbox on Form 2441 was checked. As a result of our prior recommendation, we identified 14,589 taxpayers who e-filed tax returns with a Married Filing Separately filing status that were allowed $9,426,450 in Child and Dependent Care Credits which were no longer being incorrectly denied.

Appendix V

Audit Coverage of the Tax Cuts and Jobs Act

Audit Number	Audit Title
201810022	Chief Counsel Guidance on Tax Law Changes[1]
201810024	Tax Cuts and Jobs Act: Chief Counsel Notice 2018-54 Issuance[2]
201810427	Tax Cuts and Jobs Act: Excise Tax on Excess Compensation of Tax-Exempt Organization Employees[3]
201820426	Tax Cuts and Jobs Act: Assessment of Progress to Make System Modifications[4]
201820428	Tax Cuts and Jobs Act: Filing Season 2019 Systems Development[5]
201830028	Implementation of the International Provisions of the Tax Cuts and Jobs Act[6]
201830429	Tax Cuts and Jobs Act: Repatriation Tax on the Untaxed Earnings of Foreign Corporations[7]
201840027	Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts[8]
201840434	Assessment of the Implementation of the Tax Cuts and Jobs Act[9]
201840435	Deduction for Qualified Business Income[10]

Source: TIGTA analysis of audit coverage of the Tax Cuts and Jobs Act.

[1] TIGTA, Ref. No. 2019-14-025, *Status of the Office of Chief Counsel's Issuance of Tax Cuts and Jobs Act Guidance* (May 2019).
[2] TIGTA, Ref. No. 2019-14-019, *Review of the Issuance Process for Notice 2018-54* (Feb. 2019).
[3] TIGTA, Ref. No. 2019-14-032, *Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts for the Excise Tax on Excess Compensation Paid by Tax-Exempt Organizations* (June 2019).
[4] TIGTA, Ref. No. 2018-24-064, *A Shortened Delivery Cycle, High Volume of Changes, and Missed Deadlines Increase the Risk of a Delayed Start of the 2019 Filing Season* (Sept. 2018).
[5] TIGTA, Ref. No. 2019-24-035, *The Internal Revenue Service Completed Extensive Programming and Systems Changes in a Compressed Timeframe for the 2019 Filing Season* (June 2019).
[6] TIGTA, Ref. No. 2019-34-064, *Tax Cuts and Jobs Act: Assessment of the Implementation of the International Provisions* (Sept. 2019).
[7] TIGTA, Ref. No. 2019-34-033, *Implementation of the Tax Cuts and Jobs Act Deemed Repatriation Tax Presented Significant Challenges* (May 2019).
[8] TIGTA, Ref. No. 2018-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts* (Apr. 2018).
[9] TIGTA, Ref. No. 2019-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Efforts* (Apr. 2019).
[10] TIGTA, Ref. No. 2019-44-022, *Tax Cuts and Jobs Act: Implementation of the Qualified Business Income Deduction* (Mar. 2019).

Appendix VI

Key Provisions of the Tax Cuts and Jobs Act

Provision	Standardized Language
11001	Modification of rates.
11002	Inflation adjustments based on chained Consumer Price Index.
11011	Deduction for qualified business income.
11012	Limitation on losses for taxpayers other than corporations.
11021	Increase in standard deduction.
11022	Increase in and modification of child tax credit.
11041	Suspension of deduction for personal exemptions.
11042	Limitation on deduction for State and local, *etc*., taxes.
11043	Limitation on deduction for qualified residence interest.
11044	Modification of deduction for personal casualty losses.
11045	Suspension of miscellaneous itemized deductions.
11046	Suspension of overall limitation on itemized deductions.
11048	Suspension of exclusion for qualified moving expense reimbursement.
11049	Suspension of deduction for moving expenses.
11051	Repeal of deduction for alimony payments.
12001	Repeal of tax for corporations.
12002	Credit for prior year minimum tax liability of corporations.
12003	Increased exemption for individuals.
13001	21-Percent corporate tax rate.
13002	Reduction in dividend received deductions to reflect lower corporate income tax rates.
13301	Limitation on deduction for interest.
13302	Modification of net operating loss deduction.
13304	Limitation on deduction by employers of expenses for fringe benefits.
13305	Repeal of deduction for income attributable to domestic production activities.
13403	Employer credit for paid family and medical leave.
13823	Opportunity zones.

Source: TIGTA analysis of Tax Cuts and Jobs Act provisions.

Appendix VII

Example of Revised Form 1040, U.S. Individual Income Tax Return

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2018** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing status: ☐ Single ☐ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

Your first name and initial	Last name	**Your social security number**

Your standard deduction: ☐ Someone can claim you as a dependent ☐ You were born before January 2, 1954 ☐ You are blind

If joint return, spouse's first name and initial	Last name	**Spouse's social security number**

Spouse standard deduction: ☐ Someone can claim your spouse as a dependent ☐ Spouse was born before January 2, 1954
☐ Spouse is blind ☐ Spouse itemizes on a separate return or you were dual-status alien

☐ Full-year health care coverage or exempt (see inst.)

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.

Presidential Election Campaign (see inst.) ☐ **You** ☐ **Spouse**

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6.

If more than four dependents, see inst. and ✓ here ► ☐

Dependents (see instructions): (1) First name Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see inst.): Child tax credit	Credit for other dependents
			☐	☐
			☐	☐
			☐	☐
			☐	☐

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only

Preparer's name	Preparer's signature	PTIN	Firm's EIN	Check if: ☐ 3rd Party Designee ☐ Self-employed
Firm's name ►		Phone no.		
Firm's address ►				

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2018)

Form 1040 (2018) Page **2**

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.

Standard Deduction for—
- Single or married filing separately, $12,000
- Married filing jointly or Qualifying widow(er), $24,000
- Head of household, $18,000
- If you checked any box under Standard deduction, see instructions.

1	Wages, salaries, tips, etc. Attach Form(s) W-2			1
2a	Tax-exempt interest	2a	b Taxable interest	2b
3a	Qualified dividends	3a	b Ordinary dividends	3b
4a	IRAs, pensions, and annuities	4a	b Taxable amount	4b
5a	Social security benefits	5a	b Taxable amount	5b
6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22			6
7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6			7
8	**Standard deduction or itemized deductions** (from Schedule A)			8
9	Qualified business income deduction (see instructions)			9
10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-			10
11	a Tax (see inst.) (check if any from: 1 ☐ Form(s) 8814 2 ☐ Form 4972 3 ☐) b **Add** any amount from Schedule 2 and check here ► ☐			11
12	a Child tax credit/credit for other dependents		b **Add** any amount from Schedule 3 and check here ► ☐	12
13	Subtract line 12 from line 11. If zero or less, enter -0-			13
14	Other taxes. Attach Schedule 4			14
15	Total tax. Add lines 13 and 14			15
16	Federal income tax withheld from Forms W-2 and 1099			16
17	Refundable credits: a EIC (see inst.) b Sch. 8812 c Form 8863 **Add** any amount from Schedule 5			17
18	Add lines 16 and 17. These are your total payments			18

Refund

Direct deposit? See instructions.

19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**	19
20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ► ☐	20a
► b	Routing number ► c Type: ☐ Checking ☐ Savings	
► d	Account number	
21	Amount of line 19 you want **applied to your 2019 estimated tax** ► 21	

Amount You Owe

22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ►	22
23	Estimated tax penalty (see instructions) ► 23	

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2018)

Source: IRS.gov.

Appendix VIII

Glossary of Terms

Term	Definition
Additional Child Tax Credit	The refundable portion of the Child Tax Credit that was designed to reduce the income tax burden for families with dependent children. It is used to adjust the individual income tax structure to reflect a family's reduced ability to pay taxes as family size increases.
Advance Premium Tax Credit	A tax credit that is paid in advance to a taxpayer's insurance company to help cover the cost of premiums.
American Opportunity Tax Credit	A partially refundable Federal tax credit used to help parents and college students offset the costs of college.
Average Speed of Answer	The average number of seconds taxpayers waited in the assistor queue (on hold) before receiving services.
Calendar Year	The 12-consecutive-month period ending on December 31.
Child Tax Credit	A tax credit for families with dependent children that is used to reduce the individual income tax burden for families, better recognize the financial responsibilities of raising dependent children, and promote family values.
Customer Service Representative	Responds to inquiries by telephone, in person, or by written or electronic mail correspondence. Inquiry topics may include either business or individual tax law, IRS collection techniques and enforcement actions, regulations, practices, tax forms, notices, bills, and other documents.
Data Center Warehouse	A TIGTA repository of IRS data.
Dependent Database	A rules-based system that incorporates information from many sources, including the Department of Health and Human Services, the SSA, and the IRS.
Earned Income Tax Credit	A tax credit used to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment.

Term	Definition
Electronic Fraud Detection System	An automated system used to maximize fraud detection at the time tax returns are filed to eliminate the issuance of questionable refunds.
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. It is also known as the Health Insurance Marketplace or Health Insurance Exchange.
Filing Season	The period from January through mid-April when most individual income tax returns are filed.
Fiscal Year	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.
Free File	A free Federal tax preparation and e-filing program for eligible taxpayers developed through a partnership between the IRS and the Free File Alliance, LLC. The Alliance is a group of private sector tax software companies.
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Individual Taxpayer Identification Number	A number created by the IRS to provide Taxpayer Identification Numbers to individuals who do not have and are not eligible to obtain a Social Security Number.
Individual Return Transaction File	A database the IRS maintains that contains information on the individual tax returns it receives.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Level of Service	The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS's toll-free telephone lines. The IRS's measure is titled Customer Service Representative Level of Service.

Term	Definition
Marketplace	The Marketplace is the place for people without health insurance to find information about health insurance options and to purchase health insurance. It is also known as the Health Insurance Marketplace or Health Insurance Exchange.
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
Minimum Essential Coverage	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.
Premium Tax Credit	A refundable tax credit created by the Affordable Care Act to assist eligible taxpayers with paying their health insurance premiums.
Processing Year	The calendar year in which the tax return or document is processed by the IRS.
Return Review Program	The RRP uses predictive analytics, models, filters, clustering, a scoring system, business rules, selection groups, and prisoner identification data to identify potentially fraudulent tax returns including identity theft.
Shared Responsibility Payment	Beginning with the 2015 Filing Season, if a taxpayer or anyone in the taxpayer's tax household does not have minimum essential coverage and does not qualify for a coverage exemption, the taxpayer will need to make a Shared Responsibility Payment when filing his or her Federal income tax return.
Tax Year	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.
Taxpayer Assistance Centers	An IRS office with employees who answer questions, provide assistance, and resolve account-related issues for taxpayers face to face.

Term	Definition
Taxpayer Identification Number	A nine-digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, the Taxpayer Identification Number is either an Employer Identification Number, a Social Security Number, or an Individual Taxpayer Identification Number.
Volunteer Program	Includes the Volunteer Income Tax Assistance Program, including the Volunteer Income Tax Assistance Grant Program and the Tax Counseling for the Elderly Program. The Volunteer Program provides free tax assistance to persons with low to moderate income (generally defined as within the EITC threshold), senior citizens, persons with disabilities, rural, those with limited English proficiency, and Native Americans.

Appendix IX

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

WAGE AND INVESTMENT DIVISION

DEC 0 3 2019

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report — Results of the 2019 Filing Season (Audit # 201940402)

Thank you for the opportunity to review and comment on the subject draft report. We appreciate your acknowledgement of the challenges faced in preparation for the 2019 filing season, including continued implementation of the Tax Cuts and Jobs Act (TCJA)[1], a redesign of Form 1040, U.S. Individual Income Tax Return, and the partial government shutdown. These changes were broad in scope and required updates to programming, tax products, fraud detection systems, and guidance documents. Despite these challenges, the filing season began on schedule on January 28, 2019. During this filing season, through October 25, 2019, we have processed over 154 million individual income tax returns and issued almost 111 million refunds totaling over $312 billion. For the fiscal year ending September 30, 2019, we responded to approximately 39.9 million customer contacts by telephone, through correspondence, and in person at Taxpayer Assistance Centers.

Throughout the year, we launched communication initiatives to inform taxpayers of significant changes made by the TCJA, including the impact the legislation had on the amount of federal income tax withheld from wages. From October 2018 through the end of the extended filing season in October 2019, we issued communications in both traditional and social media venues, encouraging taxpayers to check their withholding. This message was woven into various campaigns like the fall "Get Ready" campaign, dedicated Paycheck Checkup campaigns, and a refreshed Tax Withholding Estimator calculator on IRS.gov. Our outreach functions also expanded our communications reach by leveraging the communication and outreach channels of our partners and external stakeholders.

[1] An ACT to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 0218, 115-97, 131 Stat. 2054 (Dec. 22, 2017).

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While delivering the 2019 filing season, we have also been preparing for the 2020 filing season. Additional forms and programming have been developed to complete implementation of the TCJA, addressing items that could not be completed in time for this season. Two new forms, Form 8995, *Qualified Business Income Deduction Simplified Computation,* and Form 8995-A, *Qualified Business Income Deduction*, were prepared and published for public comment. Both forms will be available for use with the tax year 2019 returns filed in 2020, and the programming that will use the data obtained from those forms will be in place. This will permit a more thorough and complete evaluation of returns claiming the Qualified Business Income (QBI) deduction.

We agree or partially agree with all fifteen recommendations in the report. We do not agree with the outcome measures of increased revenue of $5,934,769 for 38,065 tax returns with QBI deductions without a schedule commonly associated with a business and increased revenue of $35,292,481 for 7,715 tax returns with casualty and theft loss deductions that were not supported by the required disaster declaration number and the outcome measure of increased revenue $2,264,703 for 7,054 tax returns with QBI deduction amounts that were over the statutory limit. Without an examination it cannot be determined the extent of, or if any non-compliance is present. Business rules are in place to identify these types of returns with a risk of non-compliance. This measure also fails to account for the opportunity costs of pursuing these types of returns rather than other returns with higher potential non-compliance.

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 Dietra Grant, Director, Customer Account Services, Wage and Investment Division, at (470) 639-3504.

Attachment

Attachment

Recommendation

RECOMMENDATION 1
The Commissioner, Wage and Investment Division, should ensure that any remaining penalty assessments qualifying for the 80 percent waiver are identified and abated. This includes those penalties that have already been assessed as well as those that may be assessed on TY 2018 returns filed throughout Processing Year 2019.

CORRECTIVE ACTION
We agree with this recommendation. The affected accounts are being reviewed and corrected as needed. We will perform data analysis on all tax year 2018 returns filed by the extended return due date of October 15, 2019, to identify taxpayers that qualified for the waiver and did not claim it. After identification of the accounts, we will perform a systemic abatement of the penalty assessments.

IMPLEMENTATION DATE
March 15, 2020

RESPONSIBLE OFFICIAL
Director, Business Support Office, Small Business/Self-Employed 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
Create a business rule that rejects tax returns when the checkbox(s) for the blind or age 65 older are checked for a spouse, but there is not a spouse being claimed on the tax return.

CORRECTIVE ACTION
We agree with this recommendation. The requisite programming changes were developed, documented, and transmitted to the Information Technology organization via Unified Work Request (UWR) 223479. We expect the programming to be implemented by January 2020; however, this work is subject to limited resources and competing priorities. Consequently, we cannot provide an implementation date.

IMPLEMENTATION DATE
N/A

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

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

RECOMMENDATION 3
Implement programming to compute the correct allowable increase in the standard deduction for tax returns in which a taxpayer does not have an entry for the spouse, but checks one or more of the checkboxes that indicate that the spouse was age 65 or older and/or was blind.

CORRECTIVE ACTION
We agree with this recommendation. We will evaluate and implement programming changes if feasible; however, programming changes are subject to competing priorities and limited resources. Consequently, we cannot provide an implementation date.

IMPLEMENTATION DATE
N/A

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

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 4
Correct programming to no longer reject tax returns with a blank or zero amount on the other adjustments statement.

CORRECTIVE ACTION
We agree with this recommendation. The requisite programming changes were developed, documented, and transmitted to the Information Technology organization via UWR 229590. We expect the programming to be implemented by January 2020; however, this work is subject to limited resources and competing priorities. Consequently, we cannot provide an implementation date.

IMPLEMENTATION DATE
N/A

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

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

RECOMMENDATION 5
Implement programming to reject tax returns with claims for the CTC and/or ACTC when the child claimed has an ATIN or ITIN. In addition, ensure that programming is corrected to reject tax returns with claims for the ACTC that exceed the statutory limit of $1,400 per child.

CORRECTIVE ACTION
We agree with this recommendation. The requisite programming changes were developed, documented, and transmitted to the Information Technology organization via UWR 228724. We expect the programming to be implemented by January 2020; however, this work is subject to limited resources and competing priorities. Consequently, we cannot provide an implementation date.

IMPLEMENTATION DATE
N/A

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

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

RECOMMENDATION 6
Review the returns of the 123 taxpayers that received CTC and ACTC claims for a dependent that had an ATIN or ITIN and the 398 taxpayers that received ACTC over the $1,400 limit and ensure that the IRS recovers the improper amount that the taxpayer received.

CORRECTIVE ACTION
We agree with this recommendation. The affected accounts are being reviewed and corrected, as needed.

IMPLEMENTATION DATE
June 15, 2020

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

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

RECOMMENDATION 7
Provide refresher training to tax examiners on accurately evaluating and working tax returns that involve ACTC claims above the allowable limit, as well as QBI deduction claims above the allowable amount.

CORRECTIVE ACTION
We agree with this recommendation. Annual refresher training for tax examiners will include training on accurately evaluating and working tax returns that involve Additional Child Tax Credit claims above the allowable limit, as well as qualified business income (QBI) deduction claims above the allowable amount.

IMPLEMENTATION DATE
February 15, 2020

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

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

RECOMMENDATION 8
Review the 7,719 tax returns that exceeded the allowable QBI deduction and ensure that the IRS recovers the improper amount the taxpayer received.

CORRECTIVE ACTION
We partially agree with this recommendation. Post-processing business rules were implemented in July 2018 to identify erroneous QBI deductions. We will continue to use our existing post processing business rules to identify returns that exceed the allowable QBI deduction. We do not agree to review and recover all 7,719 tax returns that exceed the allowable QBI deduction as they may not have a tax consequence sufficient to warrant such an action.

IMPLEMENTATION DATE
Implemented

RESPONSIBLE OFFICIAL
Director, Examination Case Selection, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 9
Evaluate the 38,075 tax returns we identified with a QBI deduction for which the filer did not appear to qualify to claim the deduction (because the filer did not have a business or real estate investment trust dividend income) to ensure that taxpayers are entitled to the deductions claimed.

CORRECTIVE ACTION
We agree with this recommendation. Post-processing business rules were applied in July 2018 to the 38,075 returns with potential erroneous deductions to identify taxpayers who did not appear to qualify to claim the QBI deduction due to not having a business or Real Estate Investment Trust dividend income. We will evaluate the tax consequences and select the appropriate returns for further treatment.

IMPLEMENTATION DATE
Implemented

RESPONSIBLE OFFICIAL
Director, Examination Case Selection, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 10
Evaluate the 887,991 tax returns that appear to qualify for the QBI deduction but for which no deductions were claimed to identify common characteristics that would enable the IRS to work with internal and external stakeholders in order to develop a more targeted outreach plan to ensure that taxpayers are aware of the eligibility requirements to claim the deduction.

CORRECTIVE ACTION
We agree with this recommendation and will use our research functions to identify common characteristics that would assist us with developing a more targeted outreach plan to ensure that taxpayers are aware of the eligibility requirements to claim the deduction. We have already reached out to external partners and we will continue to work with them to raise awareness of the deduction.

IMPLEMENTATION DATE
October 15, 2020

RESPONSIBLE OFFICIAL
Director, Office of Legislative Program Coordination, Small Business/Self-Employed Division

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

RECOMMENDATION 11
Evaluate the need to implement processes at filing that will identify tax returns that have a deduction for moving expenses that do not appear to qualify for the deduction; such as, adding a required EIN field or a checkbox for the taxpayer to attest that they are a member of the military.

CORRECTIVE ACTION
We agree with this recommendation and will coordinate with our compliance functions to determine if processes can be implemented at the point of filing that will supplement existing compliance selection processes to identify questionable or non-qualifying moving expense deductions.

IMPLEMENTATION DATE
March 15, 2020

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

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

RECOMMENDATION 12
Create a business rule to reject tax returns when a casualty and theft loss deduction is included on Schedule A and Form 4684 does not include the required FEMA disaster declaration number.

CORRECTIVE ACTION
We partially agree with this recommendation to the extent that it will reduce the volume of returns processed with missing Federal Emergency Management Agency (FEMA) disaster declaration numbers. We do not think rejection of these returns is the appropriate treatment. The absence of a FEMA disaster declaration number on a return claiming a casualty loss does not make an otherwise eligible loss ineligible. The determination of eligibility for the deduction is a question that can only be answered through an examination, a process that must be conducted under deficiency

procedures. With input from our compliance functions, we will develop processes to identify returns missing the disaster declaration numbers and route them to the Error Resolution function for treatment. Implementing this process will require programming, which is subject to limited resources and competing priorities. Consequently, we cannot provide an implementation date.

IMPLEMENTATION DATE
N/A

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

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

RECOMMENDATION 13
Review the 7,761 tax returns that claimed the casualty and theft loss deduction but did not provide a sufficient FEMA disaster declaration number to determine if the taxpayers are entitled to the deductions claimed.

CORRECTIVE ACTION
We agree with this recommendation. Post-processing business rules were implemented in July 2018 to identify casualty and theft loss deductions that did not provide a sufficient disaster declaration number. We will continue to use our existing post processing business rules to identify returns that do not provide a sufficient disaster declaration number.

IMPLEMENTATION DATE
Implemented

RESPONSIBLE OFFICIAL
Director, Exam Case Selection, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 14
Implement programming to identify AOTC claims without the educational institution EIN regardless of whether the claim is refundable or nonrefundable.

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CORRECTIVE ACTION
We agree with this recommendation. The requisite programming changes were developed, documented, and transmitted to the Information Technology organization via UWR 226932. We expect the programming to be implemented by January 2020; however, this work is subject to limited resources and competing priorities. Consequently, we cannot provide an implementation date.

IMPLEMENTATION DATE
N/A

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

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

RECOMMENDATION 15
Provide refresher training to tax examiners on accurately identifying and denying claims for the AOTC when there is no educational institution EIN present.

CORRECTIVE ACTION
We agree with this recommendation. During annual refresher training for tax examiners, we will include training on accurately identifying and denying claims for the Additional Child Tax Credit when there is no education institution Employer Identification Number present.

IMPLEMENTATION DATE
February 15, 2020

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

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