TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Late Legislation Delayed the Filing of Tax Returns and Issuance of Refunds for the 2013 Filing Season

September 30, 2013

Reference Number: 2013-40-124

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:
2 = Risk Circumvention of Agency Regulation or Statute

Phone Number / 202-622-6500
E-mail Address / TIGTACommunications@tigta.treas.gov
Website / http://www.treasury.gov/tigta

LATE LEGISLATION DELAYED THE FILING OF TAX RETURNS AND ISSUANCE OF REFUNDS FOR THE 2013 FILING SEASON

Highlights

Final Report issued on September 30, 2013

Highlights of Reference Number: 2013-40-124 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The filing season, defined as the period from January 1 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 tax laws or filing procedures. The late passage of legislation increases the risk that the processing of tax returns and issuance of tax refunds will be delayed.

WHY TIGTA DID THE AUDIT

Enactment of the American Taxpayer Relief Act of 2012 on January 2, 2013, significantly reduced the time the IRS had to implement the tax changes it contained. The objective of this review was to evaluate whether the IRS timely and accurately processed individual paper and electronically filed tax returns during the 2013 Filing Season.

WHAT TIGTA FOUND

As of May 4, 2013, the IRS received more than 133.6 million tax returns and issued more than 99.5 million refunds totaling more than $264 billion. However, due to the late passage of the American Taxpayer Relief Act of 2012 and errors in tax preparation software packages, approximately 11.6 million taxpayers were unable to file their tax returns until February or March 2013, depending on the types of forms included with their tax returns.

The IRS reported that it identified 579,183 tax returns with $3.6 billion claimed in fraudulent refunds during tax return processing and prevented the issuance of $3.47 billion (96.4 percent) of those refunds. The IRS continues to expand its efforts to identify and prevent fraudulent tax returns from being processed.

The IRS offered a number of different options for taxpayers to seek information and assistance. The use of self-assistance options has grown significantly. These options provide taxpayers with access to the IRS 24 hours a day, seven days a week. In comparison, declining IRS resources have reduced the number of taxpayers the IRS estimates it can assist at Taxpayer Assistance Centers.

Finally, many tax return preparers still do not comply with Earned Income Tax Credit due diligence reporting requirements, questionable education credits and Qualified Plug-in Electric Drive Motor Vehicle Credits continue to be issued, and Homebuyer Credit repayments and dispositions are still being incorrectly processed.

WHAT TIGTA RECOMMENDED

TIGTA made recommendations to the Commissioner, Wage and Investment Division, to improve the identification of questionable claims for the education credits and Qualified Plug-In Electric Drive Motor Vehicle Credit and to reduce errors associated with the processing of Homebuyer Credit repayments and dispositions. In addition, TIGTA recommended that the IRS initiate programs to recover the erroneous and questionable credits TIGTA identified and to ensure that Earned Income Tax Credit due diligence penalties are assessed when appropriate.

The IRS agreed with seven of TIGTA's recommendations and partially agreed with one recommendation. The IRS plans to continue to evaluate its processes to identify questionable education credit claims. It also plans to establish processes to improve the identification of questionable Qualified Plug-In Electric Drive Motor Vehicle Credit claims, reduce errors associated with the processing of Homebuyer Credit repayments and dispositions, and assess Earned Income Tax Credit due diligence penalties. In addition, the IRS plans to assess the feasibility of recovering the erroneous and questionable credits TIGTA identified.

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

September 30, 2013

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

Michael E. McKenney

FROM: Michael E. McKenney
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Late Legislation Delayed the Filing of Tax Returns and Issuance of Refunds for the 2013 Filing Season (Audit # 201340010)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) timely and accurately processed individual paper and electronically filed tax returns during the 2013 Filing Season. This review is included in our Fiscal Year 2013 Annual Audit Plan and addresses the major management challenge of Implementing the Affordable Care Act and Other Tax Law Changes.

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

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

Table of Contents

Abbreviations

AOTC	American Opportunity Tax Credit
e-file(d), e-filing	Electronically file(d); electronic filing
EFDS	Electronic Fraud Detection System
EITC	Earned Income Tax Credit
IP PIN	Identity Protection Personal Identification Number
IRS	Internal Revenue Service
MeF	Modernized e-File
VIN	Vehicle Identification Number

Background

The annual tax return filing season[1] is a critical period for the Internal Revenue Service (IRS) because it is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. As of May 4, 2013, the IRS received more than 133.6 million individual income tax returns. In addition, the IRS provided customer service assistance via telephone, website, social media, and face-to-face assistance to millions of taxpayers.

As of May 4, 2013, the IRS received more than 133.6 million individual income tax returns.

One of the challenges the IRS confronts each year in processing tax returns is the implementation of new tax law changes. Before the filing season begins, the IRS must identify new tax law and administrative changes and revise the various tax forms, instructions, and publications. It must also reprogram its computer systems to ensure that tax returns are accurately processed. Problems with tax return processing could delay tax refunds, affect the accuracy of tax accounts, and result in the generation of incorrect notices.

Tax law changes affecting the 2013 Filing Season

- ***American Taxpayer Relief Act of 2012***[2] – Enacted January 2, 2013, this act increased the Alternative Minimum Tax exemption and allowed nonrefundable credits up to the full amount of the Alternative Minimum Tax. It also permanently indexes[3] the Alternative Minimum Tax exemption for inflation and extended many tax credits and deductions that expired on December 31, 2011, including the:
  - Deduction for certain expenses incurred by eligible primary and secondary educators.
  - Deduction for qualified tuition and related expenses.
  - Itemized deduction for State and local general sales taxes.
  - Itemized deduction for mortgage insurance premiums.
  - Tax exclusion of individual retirement account distributions used for charitable purposes.
  - Residential energy credits for individuals.

[1] See Appendix V for a glossary of terms.
[2] Pub. L. No. 112-240, 126 Stat. 2313 (2013).
[3] Adjustments made to the Alternative Minimum Tax exemption amount based on inflation rates to ensure that the exemption amount has the same affect, proportionately, on taxpayers in the future.

- ***Budget Control Act of 2011***[4] – Enacted August 2, 2011, this act required Federal agencies to implement mandatory budget cuts. The IRS was required to make significant cuts in all major program areas, including customer service, for the remainder of Fiscal Year 2013 to implement the budget cuts required by the sequester.[5] The IRS postponed necessary employee furloughs until after the completion of the filing season.

The IRS processed individual income tax returns at three Wage and Investment Division Submission Processing sites during the 2013 Filing Season: Fresno, California; Kansas City, Missouri; and Austin, Texas. In addition, the 2013 Filing Season marks the first filing season in which the IRS accepted and processed all electronically filed (e-filed) individual tax returns using the Modernized e-File (MeF) system. The MeF system is a modernized, Internet-based e-file platform that provides real-time processing of tax returns that improves error detection, standardizes business rules, and expedites return receipt acknowledgments. The MeF system replaced the IRS's prior e-filing system (referred to as the Legacy e-File system).

The 2013 Filing Season results are being presented as of several dates including April 30, 2013; May 2, 2013; and May 4, 2013, unless otherwise specified. This review was performed at the Wage and Investment Division Headquarters in Atlanta, Georgia; the Information Technology organization Headquarters in Lanham, Maryland; the Submission Processing Site in Kansas City, Missouri; and the Submission Processing function offices in Cincinnati, Ohio, during the period January through July 2013. 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. 112-25, 125 Stat. 240 (2011).
5 Section 901 of the American Taxpayer Relief Act of 2012 delayed the implementation of the sequestration budget cuts until March 27, 2013.

Results of Review

Late Legislation Delayed the Filing of Tax Returns

As of May 4, 2013, the IRS received more than 133.6 million tax returns and issued more than 99.5 million refunds totaling more than $264 billion. The majority of these tax returns were timely processed, and tax refunds were issued within 45 calendar days of the April 15, 2013, tax return due date. Figure 1 presents comparative filing season statistics as of May 4, 2013.

Figure 1: Comparative Filing Season Statistics as of May 4, 2013

Cumulative Filing Season Data	2012 Actual	2013 Actual	% Change
Individual Income Tax Returns			
Total Returns Received (thousands)	134,623	133,673	-0.7%
Paper Returns Received (thousands)	22,854	20,124	-11.9%
E-Filed Returns Received (thousands)	111,769	113,549	1.6%
Practitioner Prepared (thousands)	70,130	70,080	-0.1%
Home Computer (thousands)	41,639	43,469	4.4%
Percent of Home Computer Returns	37.3%	38.3%	2.7%
Free File (thousands) *(also in the Home Computer total)*	3,033	2,872	-5.3%
Fillable Forms *(also in the Home Computer total)*	456,183	457,555	0.3%
Percentage of Returns E-Filed	83.0%	84.9%	2.3%
Refunds			
Total Number Issued (thousands)	101,171	99,551	-1.6%
Total Dollars (millions)	$273,933	$264,420	-3.5%
Average Dollars	$2,708	$2,656	-1.9%
Total Number of Direct Deposits (thousands)	78,794	79,226	0.5%
Total Direct Deposit Dollars (millions)	$230,158	$226,569	-1.6%

Source: IRS 2013 Weekly Filing Season reports. Totals and percentages shown are rounded.

However, the late passage of the American Taxpayer Relief Act of 2012 and errors in tax preparation software packages resulted in approximately 11.6 million taxpayers being unable to file their tax returns until February or March 2013 depending on the types of forms included with their tax returns. On March 4, 2013, the IRS began processing all individual tax returns.

On January 8, 2013, the IRS announced that it was delaying the start of the filing season to make the changes necessary to implement provisions of the American Taxpayer Relief Act of 2012. The IRS stated that most taxpayers would be able to file their tax returns beginning January 30, 2013—one week later than the originally planned date of January 22, 2013. However, as previously noted, some taxpayers were further delayed because several tax forms required more extensive programming changes as a result of provisions included in the recent legislation. According to the IRS, the impact would be minimized because taxpayers claiming credits related to these forms generally do not file until later in the filing season. The forms requiring more extensive programming included:

- Form 5695, *Residential Energy Credits.*
- Form 4562, *Depreciation and Amortization (Including Information on Listed Property)*.
- Form 3800, *General Business Credit*.

Errors in tax preparation software packages caused further delays for individuals claiming the American Opportunity Tax Credit (AOTC)

Although it originally planned to process tax returns claiming education credits beginning January 30, 2013, the IRS announced on January 28, 2013, that taxpayers filing tax returns that included a Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits)*, would not be able to file their tax return until mid-February. The IRS identified problems during filing season computer program testing with this form, and the delay was needed to fix the programming errors in its processing system. Taxpayers could begin filing tax returns with a Form 8863 on February 14, 2013. However, once the IRS began receiving tax returns with a Form 8863, they identified additional processing problems. On March 12, 2013, the IRS announced that errors in a limited number of software products would further delay the processing of tax returns for some taxpayers who filed with a Form 8863 between February 14 and 22, 2013.

According to the IRS, the software error affected 583,848 (25 percent) of the more than 2.3 million tax returns claiming the AOTC during this period. IRS management informed us that beginning with the 2013 Filing Season, the IRS required software companies to transmit a "yes" or "no" to specific questions on Form 8863 related to the AOTC. These questions relate to specific requirements that need to be met to qualify for the credit. A limited number of e-file software companies incorrectly programmed the form to replace a "no" answer with a blank when transmitting the tax returns to the IRS. As a result, these tax returns were identified by the

IRS's error processes as having an incomplete Form 8863 (IRS programming requires either a yes or no; the field cannot be blank).

Once the error is identified, the IRS suspends processing of the tax return and corresponds with the taxpayer to obtain the missing information. The IRS originally estimated the time for taxpayer response and correction of the missing information could take up to eight weeks. However, on March 26, 2013, the IRS announced that due to the steps it took to help taxpayers affected by the software errors, it was able to resolve these cases more quickly than anticipated—in two to four weeks.

As of May 9, 2013, IRS management indicated that approximately 7,000 of the 583,848 taxpayers whose tax returns were originally delayed still had not received their tax refund. IRS management stated that once the IRS corrected the errors caused by the blank fields in the Form 8863, the tax returns continued through the IRS's tax return verification processes. If these verification processes identified additional errors on the tax return, a further delay would result.

The e-filing rate and the use of home computers increased, whereas the use of the Free File Program decreased

As of May 4, 2013, e-file volumes were 1.6 percent higher than the volumes for the same period in the 2012 Filing Season. More taxpayers are preparing their own tax returns using a home computer. For example, as of May 4, 2013, 38.3 percent of taxpayers used a home computer to e-file their tax return compared to 37.3 percent for the same period in the 2012 Filing Season. In addition, the number of individuals using the IRS's Free File Fillable Forms to file their tax returns is also increasing. The Fillable Forms opens up the Free File Program to nearly everyone, with no income limitations. Use of Fillable Forms has increased to 457,555 tax returns, an increase of 0.3 percent from the 2012 Filing Season.

However, participation in the Free File Program decreased by 5.3 percent when compared to the same period in the 2012 Filing Season. The traditional IRS Free File Program is a free Federal online tax preparation and e-filing program that enables eligible taxpayers to use commercial tax software accessible for free through the IRS's website, IRS.gov. The Free File Program was developed through a partnership between the IRS and the Free File Alliance, LLC (a group of private-sector tax preparation companies).

The use of the savings bond and split refund options has declined, and some individuals may be misusing the split refund option

Through May 2, 2013, a total of 38,692 individuals requested to convert tax refunds totaling more than $21.6 million into savings bonds. This represents an 8.3 percent decrease in the number of taxpayers when compared to the same period during Processing Year 2012. In addition, 766,465 individuals, an 11.7 percent decrease from Processing Year 2012, chose to split tax refunds totaling more than $3.2 billion between two or three different checking and savings accounts. Figure 2 shows a comparison of taxpayers' use of the split refund and savings bond options for Processing Years 2012 and 2013 as of May 2, 2013.

Figure 2: Use of Savings Bonds and Split Refunds for Processing Years 2012 and 2013 (as of May 2, 2013)

Savings Bonds	2012 Actual	2013 Actual	% Change[6]
Total Returns	42,212	38,692	-8.3%
Total Refunds to Bonds $ (in millions)	$22.0	$21.6	-1.8%
Split Refunds			
Total Returns	868,333	766,465	-11.7%
Total Refunds Split $ (in millions)	$3,700	$3,284	-11.2%

Source: IRS 2013 Weekly Filing Season reports as of May 2, 2013. Totals shown are rounded.

In our Interim Filing Season report dated March 29, 2013,[7] we reported that our preliminary analysis of Form 8888, *Allocation of Refund (Including Savings Bond Purchases)*, raised concerns about the potential misuse of the split refund option to direct multiple tax refunds to the same bank account. Form 8888 instructions state that the form is to be used only for the deposit of a tax refund to an account in the taxpayer's name. Taxpayers are not to use Form 8888 to direct a portion of a tax refund to a tax return preparer for payment of services rendered or any other purpose. We notified the IRS on February 8, 2013, that it appears tax refunds are being directed to tax return preparer accounts and provided the IRS with the 452 paid tax return preparers associated with 248,027 multiple direct deposits for review. In response, the IRS indicated that it would review tax return preparer data and take necessary enforcement actions.

Since that time, the number of multiple split refunds to the same account increased. As of May 2, 2013, taxpayers filed 385,591 tax returns with a Form 8888 requesting direct deposits totaling more than $150.8 million into 46,897 bank accounts. Each of the 46,897 bank accounts we identified had three or more Form 8888 deposits from different taxpayers into these accounts. We determined that 248,027 (64 percent) of the 385,591 tax returns were prepared by a paid tax return preparer. On June 24, 2013, IRS management indicated that they were still in the process of reviewing the initial 452 tax return preparers we identified in February 2013 to determine their level of abuse of Form 8888. IRS management indicated that once these reviews are completed, they will educate tax return preparers on the proper use of Form 8888 and will take further action to address the most egregious offenders.

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[6] The percentages are based on the actual figures, not the rounded ones.
[7] Treasury Inspector General for Tax Administration, Ref. No. 2013-40-035, *Interim Results of the 2013 Filing Season* (Mar. 2013).

Evaluation of tax provisions affected by the American Taxpayer Relief Act of 2012

The American Taxpayer Relief Act of 2012 extended a number of expiring tax provisions. Our analysis of the following tax provisions found that the IRS adequately addressed the changes to these provisions in its tax products, computer system programming, and processing guidance:

- Deduction for State and local general sales taxes.
- Deduction for teachers' classroom expenses.
- The additional $1,000 added to the inflation-adjusted adoption credit and expiration of the refundable portion of the credit.
- Credit for certain nonbusiness energy property.
- Premiums for mortgage insurance deductible as qualified residence mortgage interest.
- Patch for the Alternative Minimum Tax.

Efforts Increased to Identify and Prevent Fraudulent Tax Returns From Being Processed

As of May 4, 2013, the IRS reported that it had identified 579,183 tax returns with $3.6 billion claimed in fraudulent refunds during tax return processing and prevented the issuance of $3.47 billion (96.4 percent) of those refunds. Although this is a decrease in the number of fraudulent tax refunds the IRS identified as of the same period in Processing Year 2012, the decrease results from the IRS's expanding efforts to identify and prevent fraudulent tax returns from ever being processed. Figure 3 shows the number of fraudulent tax returns identified by the IRS for Processing Years 2010 through 2012 as well as the refund amounts that were claimed and stopped.

Figure 3: Fraudulent Returns and Refunds Identified and Stopped in Processing Years 2010 Through 2012

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refunds Identified	Amount of Fraudulent Refunds Stopped
2010	971,511	881,303	$7,300,996,194	$6,931,931,314
2011	2,176,657	1,756,242	$16,186,395,218	$14,353,795,007
2012	3,422,505	3,110,788	$20,721,203,369	$19,247,812,922

Source: IRS fraudulent tax return statistics for Processing Years 2010 through 2012.

During tax return processing, paper and e-filed tax returns are analyzed through various Electronic Fraud Detection System (EFDS) data model formulas. The data models identify suspicious paper and e-filed tax returns based on specific characteristics of the tax return. An associated score is computed for each tax return. The higher the score, the greater the likelihood that the tax return is fraudulent. For those tax returns meeting a certain score, the tax return is sent to an IRS tax examiner to screen the tax return for fraud potential. If a tax return is selected for further verification, the tax refund is held until employers or third parties are contacted to verify wage information on the tax return. If the verification process is not completed within a certain time period, the tax refund is automatically released.

Increased efforts prevent fraudulent e-filed tax returns from being processed

Beginning in Fiscal Year 2011, the IRS began issuing Identity Protection Personal Identification Numbers (IP PIN) to assist identity theft victims in the filing of their tax returns. For the 2013 Filing Season, the IRS reports that it issued approximately 759,000 IP PINs. The IP PIN indicates that the taxpayer was a victim of identity theft and has previously provided the IRS with information that validates his or her identity and that the IRS is satisfied that the taxpayer is the valid holder of the Social Security Number. Tax returns filed with a valid IP PIN will be processed using standard processing procedures, including issuing any refunds, if applicable. However, if a valid IP PIN is not provided on the tax return, it will not be processed. For example, if a valid IP PIN is not provided on an e-filed tax return, it will be rejected (the IRS will not accept the tax return for processing). As of April 30, 2013, the IRS had rejected approximately 380,000 tax returns as a result of an incorrect or missing IP PIN. A new IP PIN will be issued each year before the start of the new filing season for as long as the taxpayer remains at risk of identity theft.

The IRS is also continuing to expand the number of tax accounts that it locks by placing an identity theft indicator on the account. Between January 2011 and May 2013, the IRS locked approximately 10 million taxpayer accounts. E-filed tax returns using the Social Security Number of a locked account will be rejected. As of April 30, 2013, the IRS has rejected 73,791 e-filed tax returns that used a Social Security Number of a locked account.

Detection of tax returns involving identity theft and prisoner tax returns

The IRS first developed 11 identity theft filters for use in Processing Year 2012.[8] The number of filters increased to more than 80 for use in the 2013 Filing Season, and as of May 30, 2013, the IRS identified 151,010 tax returns and prevented approximately $840 million in fraudulent tax refunds from being issued. The filters are used to identify potentially fraudulent tax returns and prevent the issuance of refunds at the time tax returns are being processed. The identity theft filters incorporate criteria based on characteristics of confirmed identity theft tax returns. These

[8] These filters were implemented prior to April 15, 2012.

characteristics include amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, and filing history. Tax returns identified via the filters 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. This prevents the issuance of a fraudulent tax refund. We conducted a separate review of the IRS's efforts to detect and prevent identity theft.

In addition, as of May 4, 2013, the IRS reported that it identified 149,527 potentially fraudulent prisoner tax returns for screening. The tax refunds claimed on these prisoner tax returns totaled approximately $185 million. We are in the process of conducting a separate review of the IRS's efforts to improve the detection and prevention of prisoner tax fraud.

Due to EFDS programming errors, some tax returns were not scored for fraud

In a separate review of the IRS's wage and withholding verification process, we identified 320 Tax Year 2010 tax returns that should have been sent through the EFDS but did not receive an EFDS score.[9] We brought this to the IRS's attention, and the IRS determined that errors in the processes it used to load tax return data into the EFDS resulted in some tax returns not receiving an EFDS fraud score. The IRS issued an alert on March 1, 2013, indicating that, as a result of these errors, 332,835 Tax Year 2012 paper tax returns had not received an EFDS score. IRS management indicated that programming changes were made at the beginning of the 2013 Filing Season to address the problems we identified for e-filed returns. The IRS stated that the programming errors which affected paper tax returns were corrected by the end of March 2013 and that the 332,835 Tax Year 2012 paper tax returns were subsequently sent through EFDS and received an EFDS score, resulting in the prevention of more than $1 million in fraudulent tax refunds.

More Taxpayers Are Using Self-Assistance Customer Service Options

Taxpayers have several options to choose from when they need assistance from the IRS, including telephone assistance through the toll-free telephone lines, face-to-face assistance at the Taxpayer Assistance Centers and Volunteer Program sites, and self-assistance through IRS.gov and social media channels. The use of self-assistance options has grown significantly as taxpayers seek information and assistance through these channels. In comparison, declining IRS resources reduced the number of taxpayers that the IRS estimated it could assist at Taxpayer Assistance Centers.

[9] Treasury Inspector General for Tax Administration, Ref. No. 2013-40-083, *Income and Withholding Verification Processes Are Resulting in the Issuance of Potentially Fraudulent Tax Refunds* (Sept. 2013).

Self-assistance options – 24 hours a day, seven days a week

The IRS is committed to helping taxpayers obtain the information they need to comply with the tax law. This includes offering more self-assistance options that taxpayers can access 24 hours a day, seven days a week. For example, the IRS offers IRS2Go, which is a mobile application that lets taxpayers interact with the IRS using their mobile device to access information and a limited number of IRS tools. In addition, the IRS provides information via various forms of social media including YouTube, Twitter, Tumblr, and Facebook. As of May 2, 2013, there were more than 2 million new downloads of the IRS2Go phone app, and more than 1.8 million new views of IRS YouTube videos. In addition, the number of Twitter followers increased 30 percent.

In addition, as of May 4, 2013, the IRS reported a 24.7 percent increase in the number of visits to IRS.gov over the same period in the 2012 Filing Season. It also reported a 55.6 percent increase in the number of taxpayers obtaining their refund information online via the "Where's My Refund?" feature found on IRS.gov. Figure 4 shows the year-to-date comparisons. The IRS continues to expand its online tools to assist taxpayers. For example, the IRS now offers a First-Time Homebuyer Credit (Homebuyer Credit) Account Look-Up feature on IRS.gov. This feature allows taxpayers to see the total amount of Homebuyer Credit they received, the amount they have paid back to date, the balance of their Homebuyer Credit, and their annual installment repayment amount. The Look-Up feature helps taxpayers determine whether they need to include any Homebuyer Credit repayment on their current year tax return.

Figure 4: Year-to-Date Comparisons of the 2010 Through 2013 Filing Seasons

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change 2012–2013
IRS.gov Visits	198,557,847	208,921,976	250,654,312	312,460,471	24.7%
"Where's My Refund?"	57,931,423	66,872,767	113,674,118	176,932,855	55.6%

Source: IRS 2010 through 2013 Filing Season Weekly reports.

"Where's My Refund" tool did not always provide accurate refund status information early in the filing season. We identified that the "Where's My Refund?" tool did not consistently provide accurate refund status information to some taxpayers who filed early in the 2013 Filing Season. The IRS indicated that it had identified this issue on February 12, 2013, which resulted from a computer programming error incorrectly overwriting the refund date. The IRS indicated that the issue was corrected on March 14, 2013, and no new occurrences had been reported. While updates could not be made to accounts that received the incorrect message prior to the programming correction, the IRS expected the impact on affected taxpayers to be minimal because those taxpayers had already received their refunds. Our review of 62 tax returns received between March 2 and 15, 2013, confirmed that the "Where's My Refund?" tool provided accurate information and correctly noted that the tax refunds had been issued for all 62 tax returns.

Face-to-face assistance provided at the Taxpayer Assistance Centers

The IRS assisted approximately 6.8 million taxpayers during Fiscal Year 2012 and plans to assist six million taxpayers in Fiscal Year 2013. This represents 11.8 percent fewer taxpayers than were assisted in Fiscal Year 2012. The Fiscal Year 2013 plan was based on the assumption of limited seasonal staff support and the continuing reduction of permanent staff as a result of the hiring freeze and buy-out authority. Figure 5 shows the number of contacts by product line at the Taxpayer Assistance Centers for Fiscal Years 2010 through 2013.

Figure 5: Contacts for Fiscal Years 2010 Through 2013 (in Millions)

	Fiscal Year			
Contacts/Product Lines	**2010**	**2011**	**2012**	**2013****
Tax Accounts Contacts	3.5	3.7	4.3	3.8
Forms Contacts	0.7	0.6	0.6	0.5
Other Contacts[10]	1.5	1.5	1.7	1.5
Tax Law Contacts	0.3	0.3	0.2	0.2
Tax Returns Prepared[11]	0.4	0.3	N/A	N/A
Totals	**6.4**	**6.4**	**6.8**	**6.0**

*Source: IRS management information reports. ** Fiscal Year 2013 amounts are projections.*

Toll-free telephone assistance

Through May 4, 2013, the IRS received approximately 92.8 million attempts from taxpayers calling the various toll-free telephone assistance lines seeking help in understanding the tax law and meeting their tax obligations.[12] IRS assistors answered more than 15.6 million calls and have achieved a 69.8 percent Level of Service[13] with a 14.1 minute Average Speed of Answer.

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[10] Other Contacts includes Form 2063, *U.S. Departing Alien Income Tax Statement*, date-stamping tax returns brought in by taxpayers, screening taxpayers for eligibility of service, scheduling appointments, and helping taxpayers with general information such as addresses and directions to other IRS offices or other Federal Government agencies.
[11] In Fiscal Years 2012 and 2013, Tax Returns Prepared is included in Other Contacts.
[12] The IRS refers to the suite of 27 telephone lines to which taxpayers can make calls as "Customer Account Services Toll-Free."
[13] The IRS's Customer Service Representative Level of Service measure only reflects the relative success rate of taxpayers who call the IRS's 27 toll-free telephone lines seeking assistance from an assistor.

The Level of Service for Fiscal Year 2012 was 67.8 percent. Figure 6 shows a comparison of IRS toll-free telephone statistics through May 4, 2013, for Fiscal Years 2010 through 2013.

Figure 6: Toll-Free Telephone Statistics for Fiscal Years 2010 Through 2013 (as of May 4, 2013)

Statistic	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013
Calls Answered	17,947,725	17,607,007	14,620,233	15,609,615
Level of Service	76.0%	74.1%	67.8%	69.8%
Average Speed of Answer (seconds)	569	622	975	848

Source: IRS management information reports as of May 4, 2013.

Tax preparation assistance at Volunteer Program sites

The Volunteer Program continues to play an important role in the IRS's efforts to improve taxpayer service and facilitate participation in the tax system. It provides no-cost Federal tax return preparation and e-filing to underserved taxpayer segments, including low-income, elderly, persons with disabilities, rural, Native Americans, and limited-English-proficient taxpayers. As of May 4, 2013, more than three million tax returns have been prepared at the 13,081 Volunteer Program sites nationwide. Figure 7 shows the number of tax returns prepared by volunteers from Fiscal Years 2011 through 2013.

Figure 7: Volunteer Program Statistics for Fiscal Years 2011 Through 2013

	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	% Change 2012–2013
Tax Returns	3,188,524	3,264,997	3,296,058	1.0%
Volunteers	88,527	98,978	91,820	-7.2%
Sites	12,486	13,143[14]	13,081	-0.5%

Source: IRS management information system containing Fiscal Years 2011 through 2013 information. Percentages are rounded.

[14] The Tax Returns and Sites totals do not include tax returns prepared using Facilitated Self-Assistance or those sites.

We conducted a separate review of the accuracy of tax return preparation at Volunteer Program sites. We visited 39 Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites to determine if taxpayers receive quality service, including accurate preparation of their individual income tax returns. We developed scenarios designed to test quality controls and training the volunteers received in preparation for the 2013 Filing Season.

Many Paid Tax Return Preparers Continue to Not Comply With Earned Income Tax Credit Due Diligence Requirements

Each year the IRS estimates that $11 to $13 billion in Earned Income Tax Credits (EITC) are improperly paid and estimates that two-thirds of all the EITC claims are prepared with the assistance of a paid tax return preparer. Analysis of the more than 14.4 million tax returns with an EITC claim that were prepared by a paid tax return preparer as of May 2, 2013, identified 708,298 (5 percent) tax returns claiming more than $2 billion in the EITC where the IRS determined that the tax return preparer either did not include the required Form 8867, *Paid Preparer's Earned Income Credit Checklist*, or included an incomplete Form 8867. These 708,298 tax returns were prepared by 122,133 tax return preparers who continue to not comply with EITC due diligence requirements.

Beginning with the 2012 Filing Season, paid tax return preparers who prepare a tax return claiming the EITC must include Form 8867 with the tax return. Preparers who do not adhere to this requirement can be assessed a $500 due diligence penalty for each tax return they submit without the required Form 8867:

- *Internal Revenue Code Section 6695(g) states: Any person who is a tax return preparer with respect to any return or claim for refund who fails to comply with due diligence requirements imposed by the Secretary by regulations with respect to determining eligibility for, or the amount of, the credit allowable by section 32 shall pay a penalty of $500 for each such failure.*
- *Section 1.6695–2 of Title 26 of the Code of Federal Regulations states: The tax return preparer must complete Form 8867, Paid Preparer's Earned Income Credit Checklist, or such other form and such other information as may be prescribed by the Internal Revenue Service.*
- *Form 8867 states: If you checked "No" on line 20, 21, 22, 23, 24, or 25, you have not complied with all the due diligence requirements and may have to pay a $500 penalty for each failure to comply.*

The noncompliance we identified in the 2013 Filing Season is what we also reported in our 2012 Filing Season report.[15] We reported that, as of May 3, 2012, almost 534,000 (4 percent) tax returns with EITC claims totaling more than $1.5 billion were filed without the required Form 8867. IRS management indicated that the new requirement did not become effective until December 20, 2011, and although the IRS had taken immediate steps to communicate the requirement to the preparer community, it is possible the message was not fully disseminated before the filing season began. No penalties were assessed against tax return preparers who were noncompliant in the 2012 Filing Season. The IRS indicated that it planned to assess penalties for noncompliance for Tax Year 2012 returns.

For the 708,298 Tax Year 2012 tax returns identified, the potential penalties that can be assessed as a result of not including the required Form 8867 total more than $354 million. Figure 8 shows the results of our analysis of paid tax return preparers potentially subject to the EITC due diligence penalty as of May 2, 2013.

Figure 8: Analysis of Paid Tax Return Preparer Noncompliance With EITC Due Diligence Requirements (as of May 2, 2013)

	Paid Preparers	Tax Returns	EITC Claimed	Potential Penalty Amount
No Form 8867 Included With Tax Return	52,826	158,348	$362,088,138	$79,174,000
Incomplete Form 8867 Included With Tax Return	69,307	549,950	$1,679,914,975	$274,975,000
TOTAL	122,133	708,298	$2,042,003,113	$354,149,000

Source: Our analysis of tax return information in the Individual Return Transaction File as of May 2, 2013.

At the start of the 2013 Filing Season, the IRS indicated that as a result of its extensive outreach to software developers and the tax return preparer community prior to the start of the filing season, it believed few, if any, paid tax return preparers would fail to comply with the new due diligence reporting requirement. These efforts included the issuance of almost 5,000 warning notices to paid tax return preparers who were noncompliant with the Form 8867 requirement in Processing Year 2012. The IRS also indicated that it will identify Tax Year 2012 tax returns prepared by a paid tax return preparer with a claim for the EITC and no Form 8867 throughout

[15] Treasury Inspector General for Tax Administration, Ref. No. 2012-40-119, *The Majority of Individual Tax Returns Were Processed Timely, but Not All Tax Credits Were Processed Correctly During the 2012 Filing Season* (Sept. 2012).

the 2013 Filing Season and will assess penalties against the paid tax return preparers at the completion of the filing season.

On January 15, 2013, we notified the IRS of our concerns with its plans for assessing the due diligence penalty. We suggested that the IRS establish a process to notify noncompliant tax return preparers early in the filing season to allow them to become compliant and thus reduce the amount of the penalty that they could ultimately be assessed. On February 14, 2013, we provided the IRS with a list of 10,345 tax return preparers who were not in compliance with the EITC due diligence requirement of including a completed Form 8867 with the tax return. IRS management notified us on March 18, 2013, that in reviewing the tax return preparers we provided, they identified that some of the missing or incomplete Forms 8867 may be the result of errors in some of the tax preparation software preparers are using. However, the IRS was unable to determine which preparers may have been affected by these errors.

As of June 24, 2013, the IRS stated that it was considering a number of options for assessing the due diligence penalty but had not yet determined how to proceed. The IRS also stated that it does not have a firm date as to when it will assess the due diligence penalties. The IRS indicated that its goal is to assess applicable penalties before the next filing season, "as long as time and resources allow for it."

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should ensure that the EITC due diligence penalty is assessed against tax return preparers who did not comply with the requirement to attach a Form 8867 to tax returns with a claim for the EITC.

> ***Management's Response:*** The IRS agreed with this recommendation and will complete its analysis of the Tax Year 2012 returns that were prepared by paid tax return preparers and did not have the required Form 8867. The IRS indicated that it will assert the penalty for failure to comply with EITC due diligence requirements in those cases where Letter 4989, *You Submitted 2011 Credit Returns with EITC Without Attaching Form 8867*, was issued and the preparer remained noncompliant in the 2013 Filing Season. To effectively manage resources and administer the penalty in a balanced and uniform manner, the IRS indicated that it will assert penalties on those preparers whose noncompliance is determined to be egregious or habitual.
>
> The IRS disagreed with our outcome measure of $354 million in EITC due diligence penalties. It believes that the amount associated with EITC due diligence penalties is lower than we estimated because it includes preparers whose noncompliance resulted from technical issues.
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> ***Office of Audit Comment:*** While the IRS agreed with our recommendation, it plans to limit the assessment of penalties to only those preparers who were also delinquent in

meeting due diligence requirements in the 2012 Filing Season and whose noncompliance is determined to be egregious or habitual. This is despite the fact that the IRS has conducted extensive education and outreach to the tax return preparer and software provider communities since the requirement to provide Form 8867 became effective in December 2011. The IRS expended significant resources to ensure that tax return preparers were knowledgeable about the EITC due diligence requirements.

The IRS disagreed with our outcome measure because it believes that some tax preparer noncompliance was caused by technical issues. During our audit, the IRS indicated that some of the tax return preparers we identified were affected by a tax preparation software error that resulted in the Form 8867 not being transmitted to the IRS or an incomplete Form 8867 being transmitted. However, as stated in our report, the IRS did not provide documentation during our review identifying those tax return preparers whose noncompliance was the result of a tax preparation software error.

Taxpayers Continue to Receive Questionable Education Credits

Our analysis of the processing of education credit claims filed on Tax Year 2012 tax returns found that the IRS is continuing to allow credits for students who are unlikely to be enrolled in a post-secondary education program. As of May 2, 2013, 42,961 taxpayers received questionable education credits totaling approximately $58.5 million for students under the age of 14 and over the age of 65. We identified that:

- 15,208 taxpayers received more than $21.5 million in questionable AOTC credits. These taxpayers claimed AOTCs totaling nearly $13.3 million for students under the age of 14 and $8.2 million for students over the age of 65.
- 12,171 taxpayers received more than $3.5 million in questionable Lifetime Learning Credits. These taxpayers claimed Lifetime Learning Credits totaling almost $1 million for students under the age of 14 and $2.5 million for students over the age of 65.
- 15,582 taxpayers received questionable AOTC and Lifetime Learning Credits. These taxpayers received more than $16.3 million in questionable AOTC credits—more than $9.7 million for students under the age of 14 and more than $6.6 million for students over the age of 65. These taxpayers also received more than $17.2 million in questionable Lifetime Learning Credits—more than $9.9 million for students under the age of 14 and more than $7.3 million for students over the age of 65.

Education credits include the AOTC and the Lifetime Learning Credit. The AOTC was created by the American Recovery and Reinvestment Act of 2009[16] (the Recovery Act) and is a refundable tax credit available for higher education expenses up to $4,000 for Tax Years 2009

[16] Pub. L. No. 111-5, 123 Stat 115 (2009).

and 2010. The maximum AOTC is $2,500 per student, and the first 40 percent of the credit (up to $1,000) is fully refundable. Taxpayers can receive the credit only for students who attend at least half-time for at least one academic period and are pursuing a four-year degree or vocational certification.[17] The American Taxpayer Relief Act of 2012 extended the AOTC through December 2017. The Lifetime Learning Credit, enacted in 1997 as part of the Taxpayer Relief Act,[18] is open to anyone taking at least one college or vocational course who meets the income eligibility requirements. The qualifying person does not have to be pursuing a degree and there is no minimum number of credit hours required.

In our 2012 Filing Season report,[19] we reported that 109,618 taxpayers received AOTCs totaling more than $159 million in Tax Year 2011 for students who, based on their age, are unlikely to be enrolled in a four-year college degree or vocational education program. In response to our review, the IRS developed filters to identify questionable claims for the AOTC based on the age of the student. The IRS also revised Form 8863 to require detailed information about the educational institution each student attended. In addition, the IRS indicated that it would use the Automated Questionable Credit program to initiate correspondence to taxpayers and, if appropriate, issue the requisite Statutory Notices of Deficiency to disallow erroneous credit claims before payment. For those cases that are not appropriate for resolution through the Automated Questionable Credit program, the IRS planned to continue to use existing examination resources to supplement its efforts to address erroneous claims.

On February 28, 2013, we notified the IRS that taxpayers were continuing to receive education credits for students whose age indicates it is not likely they are attending college. IRS management agreed. According to IRS management, the filters they implemented in response to our 2012 Filing Season report did not identify all instances where taxpayers claimed students who, based on their age, are not likely attending college. IRS management also stated that the IRS recognizes the importance of identifying and reviewing questionable AOTC claims based on the student's age. However, the IRS does not have the authority to deny the AOTC during tax return processing based solely on the student's age. We plan to conduct a separate review of the IRS's efforts to detect and prevent questionable education credit claims.

[17] Taxpayers can receive the AOTC for a graduate student who received their undergraduate degree in less than four years.
[18] Pub. L. No. 105-34, 111 Stat. 788 (codified as amended in scattered sections of the U.S. Code).
[19] Treasury Inspector General for Tax Administration, Ref. No. 2012-40-119, *The Majority of Individual Tax Returns Were Processed Timely, but Not All Tax Credits Were Processed Correctly During the 2012 Filing Season* (Sept. 2012).

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 2: Update filters to ensure that all instances in which taxpayers claim students whose age indicates it is not likely they are attending college are identified during tax return processing as a potentially questionable education credit claim.

> ***Management's Response:*** The IRS agreed with this recommendation. The IRS has implemented filters and business rules during return processing that consider the age of students for whom education credits are claimed. Business rules are also in place and used by the Compliance function to evaluate student ages when considering tax returns to be selected for audit. The processing and post-processing filters and business rules are frequently evaluated to ensure effectiveness and balance in identifying fraudulent or erroneous claims without unduly flagging those claims most likely to be accurate. The IRS disagreed with our outcome measures of potentially erroneous AOTC and Lifetime Learning Credits, stating that the age of the student is only one attribute to be considered when evaluating the potential for an erroneous or fraudulent claim.
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> ***Office of Audit Comment:*** Although the IRS agreed with this recommendation, its response shows that corrective actions have already been taken to address the concerns we raised. However, we disagree that the actions taken are effective in identifying education credits claimed for students whose age indicates it is unlikely they are enrolled in secondary education or vocational training. As of May 2, 2013, we continued to identify questionable education credits that were not identified by IRS filters and business rules.
>
> We agree that the age of the student is only one attribute to be considered when evaluating the potential for an erroneous or fraudulent claim. However, we believe this is an important attribute of a potentially erroneous claim. The IRS also agrees that the age of the student is a significant indicator of potential error or fraud as demonstrated by the fact that it implemented filters and business rules to identify these education credit claims in response to similar concerns raised during our 2012 Filing Season review. The IRS should ensure that the filters and business rules are working properly.

Recommendation 3: Initiate a program to recover the more than $58 million from the 42,961 taxpayers who received education credits for students who were of an unlikely age to be eligible for the credits.

Management's Response: The IRS agreed with this recommendation. The Compliance functions will select a sample set of returns for inclusion in the Fiscal Year 2014 Exam Plan. The results of the sample examinations will be evaluated and considered in determining if expansion of the sample is an appropriate use of limited resources or if the issue displaces other work that is more productive.

Some First-Time Homebuyer Credit Repayments and Dispositions Continue to Be Processed Incorrectly

We have continued to report inaccuracies in the IRS's processing of Homebuyer Credit repayments in the results of our filing season reviews since September 2011. Analysis of Homebuyer Credit repayments processed as of May 2, 2013, identified 4,184 tax returns for which the IRS refunded a Homebuyer Credit installment payment as of May 2, 2013. We reviewed a judgmental sample[20] of 138 of these 4,184 tax returns and found that all of the refunds were correctly issued to taxpayers. However, the IRS continues to incorrectly assess Homebuyer Credit repayments and incorrectly calculate the remaining Homebuyer Credit repayment amounts when property is transferred as a result of a divorce.

Individuals who claimed the Homebuyer Credit for a home purchased between April 9 and December 31, 2008, are required to repay the credit in annual installment payments beginning with their Tax Year 2010 return. Taxpayers who received a Homebuyer Credit must also repay the credit, less any installment payments made, if they dispose of the home or if the home is no longer used as their primary residence.[21] Figure 9 shows the number of Homebuyer Credit installments and dispositions the IRS processed as of May 2, 2013.

Figure 9: Homebuyer Credits, Installments, and Dispositions Processed as of May 2, 2013

Category	Number of Tax Returns	Number of Individuals	Dollar Amount of Homebuyer Credit Reported by Taxpayers
Installments	593,339	800,131	$253,022,305
Dispositions	19,659	25,991	$7,885,268

Source: Our analysis of the IRS's Individual Return Transaction File as of May 2, 2013.

The IRS continues to incorrectly assess Homebuyer Credit repayments

We identified 114, 243 tax returns in which the IRS assessed Homebuyer Credits totaling more than $47 million. The assessments were made because the repayment amounts shown on the tax returns were lower than the amounts computed by the IRS. Our analysis of a statistical sample of 383 of the 114,243 tax returns found that the IRS incorrectly assessed Homebuyer Credit repayments totaling $32,826 on 99 (26 percent) tax returns. Based on the results of our review,

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[20] A judgmental sample is a nonstatistical sample, the results of which cannot be used to project to the population.
[21] A home is considered disposed if the taxpayer sold the home or the home was foreclosed upon, converted for rental or business use, or destroyed or condemned. A home is also considered to be disposed when ownership of the home is transferred as part of a divorce settlement.

we estimate that the IRS could have incorrectly assessed approximately $10.5 million in Homebuyer Credit repayments to 52,031 taxpayers.

On May 7, 2013, we notified the IRS of our continued identification of erroneous assessments of Homebuyer Credit repayments. IRS management agreed that repayment assessments were incorrectly posting to taxpayer's accounts. IRS management stated that a programming error caused the incorrect assessment of the additional payment when some taxpayers submitted a Form 5405, *Repayment of the First-Time Homebuyer Credit*, with their tax return. In Tax Year 2012, taxpayers making regular installment payments were instructed to report their annual repayment of the Homebuyer Credit on Line 59b of the Form 1040, *U.S. Individual Income Tax Return*. These taxpayers did not need to complete the Form 5405. However, the IRS did not provide a specific explanation as to why the presence of the Form 5405 when one was not required resulted in an additional assessment. IRS management stated that the IRS has corrected the assessment amounts on the tax returns we provided and plans to correct the programming error.

While we agree that some of the erroneous assessments we identified may have been caused by taxpayers submitting the Form 5405 when the form was not required, not all of the erroneous Homebuyer Credit repayment assessments occurred for taxpayers who were not required to provide a Form 5405. Of the 99 tax returns we identified with erroneous Homebuyer Credit repayment assessments, 10 (10 percent) were filed without a Form 5405. In addition, taxpayers were required to attach the Form 5405 on 17 (17 percent) tax returns because the taxpayer reported a disposition of the home. On July 15, 2013, we notified the IRS of our concerns with its assessment of the errors we identified and requested additional information as to why these errors may have occurred. IRS management stated that a programming error in the software used by its Error Resolution System caused certain tax returns with an additional Homebuyer Credit assessment to not be identified for additional review before the assessment was processed. IRS management indicated that they have requested computer programming changes to correct the error for the 2014 Filing Season. In addition, IRS management stated that they will take steps to identify taxpayers with potentially inappropriate Homebuyer Credit assessments and correct the taxpayers' accounts.

Calculation of remaining Homebuyer Credit repayment amounts continues to be incorrect when property is transferred as a result of a divorce

Analysis of Homebuyer Credit dispositions processed as of May 2, 2013, found that the IRS continues to record dispositions resulting from a divorce incorrectly. We reviewed 2,288 tax accounts associated with 2,157 Tax Year 2012 tax returns the IRS processed as of May 2, 2013, where the taxpayer reported a disposition resulting from divorce. We identified 239 (10 percent) of the 2,288 tax accounts where the IRS incorrectly overstated the remaining Homebuyer Credit repayment amount by $956,576.

When ownership of a home used to claim the Homebuyer Credit is transferred in a divorce, the credit repayment obligation less any installment payments that have been made is transferred to the spouse who receives full ownership of the home. Taxpayers report the transfer of ownership on Part III, Line 13, Box E, of Form 5405. For example:

> *Taxpayers A and B file a joint tax return and claim a $7,500 Homebuyer Credit. Taxpayer A's tax account will show a credit repayment obligation of $3,750 and Taxpayer B's tax account will show a credit repayment obligation of $3,750. The couple makes a $500 Homebuyer credit repayment. The IRS credits one-half of the repayment to each taxpayer. As a result, Taxpayer A's tax account now shows a net repayment obligation of $3,500 and Taxpayer B's tax account now shows a net repayment obligation of $3,500.*
>
> *The couple gets divorced and Taxpayer A transfers ownership of the home to Taxpayer B. When ownership of the home is transferred, the net repayment obligation for Taxpayer A is transferred to Taxpayer B. As a result, Taxpayer A's tax account will now show a $0 repayment obligation and Taxpayer B's tax account will show a $7,000 net repayment obligation.*

In September 2012, we reported that the IRS did not accurately process 66 percent (3,819 tax accounts) of the taxpayer accounts it had processed as of December 31, 2011, where the taxpayer transferred his or her ownership of the home to a spouse, *e.g.*, in the case of a divorce. The incorrect calculations of the remaining Homebuyer Credit repayment amounts were overstated for 136 taxpayers by more than $650,000 and understated for 3,683 taxpayers by more than $13.1 million. The overstatements were the result of a computer programming error. The IRS stated that it would correct the computer programming and correct the tax accounts processed in error. However, in May 2013, IRS management discovered that although requested programming changes to correct the error identified last year were made, the requested changes were never implemented. Management indicated that they are seeking a solution to resolve the issue. In addition, the IRS is in the process of correcting the 239 taxpayer accounts with errors we identified this year.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 4: Correct the programming error that resulted in the over assessment of an estimated $10.5 million in Homebuyer Credit installment payments to 52,031 taxpayers and continue to evaluate the remaining erroneous assessments we identified and take action to correct any conditions identified.

> ***Management's Response:*** The IRS agreed with this recommendation. Programming changes to resolve the errors that led to the erroneous Homebuyer Credit assessments have been identified and are expected to be implemented for the 2014 Filing

Season. It should be noted, however, that programming changes are dependent upon Information Technology resource availability and Service-wide technology priorities. The IRS will continue to evaluate erroneous assessments that were made and ensure the accounts are adjusted appropriately.

Recommendation 5: Ensure that actions are taken to implement computer programming changes to address errors identified during the 2012 Filing Season to prevent the continued errors in processing Homebuyer Credit dispositions.

Management's Response: The IRS agreed with this recommendation. Programming changes to resolve the errors that led to incorrect processing of Homebuyer Credit information when dispositions occurred are expected to be implemented for the 2014 Filing Season. It should be noted, however, that programming changes are dependent upon Information Technology resource availability and Service-wide technology priorities. The IRS will continue to evaluate erroneous assessments that were made and ensure that the accounts are adjusted appropriately.

Recommendation 6: Initiate a program to correct the 239 taxpayers' accounts where the IRS incorrectly recorded the transfer of the net Homebuyer Credit repayment obligation in the case of a divorce.

Management's Response: The IRS agreed with this recommendation. The IRS is obtaining an extract of accounts to identify all accounts affected by the Homebuyer Credit programming errors and will adjust them to reflect their correct status.

Taxpayers Continue to Receive Erroneous Qualified Plug-in Electric Drive Motor Vehicle Credits

Our review of Vehicle Identification Numbers (VIN) and vehicle descriptions provided by taxpayers on Form 8936, *Qualified Plug-in Electric Drive Motor Vehicle Credit*, identified 574 tax returns claiming questionable Qualified Plug-in Electric Drive Motor Vehicle Credits (referred to as Plug-in Motor Vehicle Credits) totaling more than $2.6 million as of May 2, 2013. These 574 questionable claims include:

- 114 (20 percent) taxpayers who claimed credits totaling $348,337 where the vehicle claimed on Form 8936 did not qualify for the credit.
- 186 (32 percent) taxpayers who claimed credits totaling $827,369 where the description of the vehicle model or model year did not match the vehicle model or model year indicated by the VIN provided by the taxpayer.
- 274 (48 percent) taxpayers who claimed credits totaling more than $1.4 million where the VIN provided on the Form 8936 was less than 17 digits.

On March 26, 2013, we provided the IRS with 65 tax returns with questionable Plug-in Motor Vehicle Credits for its review. IRS management agreed that the Plug-in Motor Vehicle Credit was likely being allowed for nonqualifying vehicles. According to the IRS, processes ensure that a VIN is provided on Form 8936 and, if provided, that the VIN is alphanumeric. However, these processes do not ensure that the VIN is 17 characters or that the characters included in the VIN represent a qualifying vehicle. IRS management indicated that it would review the most questionable tax returns we identified and take necessary corrective actions.

The Recovery Act included a number of provisions that encourage the purchase of motor vehicles (or the conversion of motor vehicles to those) that operate on clean renewable sources of energy. In January and September 2011, we reported that taxpayers were claiming erroneous Plug-in Motor Vehicle Credits.[22] We recommended that the IRS develop a process to ensure that taxpayers are not erroneously claiming credits for nonqualifying vehicle makes and models. The IRS agreed with this recommendation and began requiring the VIN on Form 8936 in the 2012 Filing Season. The standard VIN is 17 digits long and identifies the vehicle manufacturer, type, model, and year of manufacture. Figure 10 is an illustration of a standard VIN.

Figure 10: Standard VIN

	World Manufacturer Identifier		Vehicle Descriptor Section			Vehicle Identifier Section		
Type of Information Provided	**Country**	**Manufacturer**	**Type**	**Details**	**Check Digit**	**Year**	**Assembly Plant**	**Production Number**
VIN Digits	1	2	3	4–8	9	10	11	12–17
Values From Example VIN 1HGCM82633A004352	1	H	G	CM826	3	3	A	004352

Source: www.carfax.com/vin_decoding.cfx.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 7: Establish procedures to ensure that the VIN provided for each vehicle claimed on Form 8936 is 17 characters long and, using the characteristics of the VIN, ensure that the vehicle is eligible before allowing the Plug-in Motor Vehicle Credit.

[22] Treasury Inspector General for Tax Administration, Ref. No. 2011-41-011, *Individuals Received Millions of Dollars in Erroneous Plug-in Electric and Alternative Motor Vehicle Credits* (Jan. 2011) and Ref. No. 2011-41-128, *The Passage of Late Legislation and Incorrect Computer Programming Delayed Refunds for Some Taxpayers During the 2011 Filing Season* (Sept. 2011).

Management's Response: The IRS partially agreed with this recommendation. The IRS will be evaluating changes to Form 8936 which will ensure that reported VINs contain the requisite number of characters. ******************2******************
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Recommendation 8: Initiate a program to recover the erroneous Plug-in Motor Vehicle Credits the IRS allowed on the 574 tax returns we identified.

Management's Response: The IRS agreed with this recommendation. The IRS has developed a business rule to identify returns claiming the Plug-in Motor Vehicle Credits for additional review. The Compliance functions will select a sample set of returns for inclusion in the Fiscal Year 2014 Exam Plan. The results of the sample examinations will be evaluated and considered in determining if expansion of the sample is an appropriate use of limited resources or if the issue displaces other work that is more productive.

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 2013 Filing Season. To achieve this objective, we:

I. Identified volumes of paper and e-filed tax returns received through May 4, 2013, from the IRS Weekly Filing Season reports that provided a year-to-date comparison of scheduled return receipts to actual return receipts. The reports also provided a comparison to Fiscal Year 2012 receipts for the same period.

II. Determined whether the IRS correctly implemented selected tax legislation that affected the processing of individual taxpayer returns during the 2013 Filing Season.

A. Evaluated the IRS's preparations for the following potentially expiring tax provisions and determined whether the IRS handled them timely and appropriately.

- Deduction for State and local general sales taxes.
- Deduction for teachers' classroom expenses.
- The additional $1,000 added to the inflation adjusted adoption credit and the adoption credit being refundable.
- Credit for certain nonbusiness energy property.
- Premiums for mortgage insurance deductible as qualified residence mortgage interest.
- Patch for the Alternative Minimum Tax.

B. Electronically identified 574 tax returns claiming questionable Plug-in Motor Vehicle Credits totaling more than $2.6 million on Form 8936, *Qualified Plug-in Electric Drive Motor Vehicle Credit.*

III. Determined the status and accuracy of programs planned to be initially implemented for the 2013 Filing Season.

A. Electronically identified more than 14.4 million EITC tax returns that were prepared by a paid preparer. We determined which preparers could be subject to the EITC due diligence penalty based on tax returns submitted without a Form 8867, *Paid Preparer's Earned Income Credit Checklist.*

B. Tested the accuracy of the expanded "Where's My refund?" application on IRS.gov by tracking a judgmental sample[1] of 62 returns. A judgmental sample was selected to validate the accuracy of the program and because we did not intend to project to the population.

IV. Followed up on findings previously reported by the Treasury Inspector General for Tax Administration to ensure that the IRS has taken the agreed-upon action to resolve the issues.

A. Determined whether the IRS is inappropriately refunding Homebuyer Credit installment payments to taxpayers who correctly report the required repayment amounts on their tax returns by reviewing a judgmental sample of 138 returns that had the installment payment refunded and determined whether the refund was appropriate. A judgmental sample was used because we did not intend to project to the population.

B. Electronically identified 114,243 returns that had an additional Homebuyer Credit installment payment assessed. We determined whether the IRS correctly assessed additional installment payments by reviewing a statistical sample of 383 returns with Homebuyer Credit assessments. The sample size was selected based on a 50 percent error rate, 95 percent confidence level, and 5 percent precision.

C. Electronically identified 2,157 returns where the taxpayers reported a disposition resulting from a divorce. We evaluated the returns to determine whether the IRS processed the disposition correctly.

D. Electronically determined that 42,961 taxpayers received questionable education claims totaling approximately $58.5 million for students under the age of 14 and over the age of 65.

V. Determined whether the IRS monitoring systems indicated that individual tax returns are being processed timely and accurately.

A. Attended weekly Wage and Investment Division Filing Season Production meetings to keep informed on any issues occurring nationwide.

B. Monitored the IRS Submission Processing website, the IRS public website, and other applicable websites to identify significant issues or new tax legislation passed after the filing season began that may affect processing of Tax Year 2012 individual tax returns.

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

VI. Compiled statistical information that is of interest to external stakeholders.

A. Quantified fraudulent tax returns and tax returns filed by prisoners.

B. Determined whether individuals are using the savings bond option for direct purchase of savings bonds from their refunds.

C. Determined whether individuals are using the split refund option for depositing their refunds.

VII. Identified results for the IRS Taxpayer Assistance Center Program.

A. Obtained statistics on taxpayers served at the Taxpayer Assistance Centers from the IRS Field Assistance Office.

B. Reviewed the IRS Weekly Filing Season reports, which provide a year-to-date comparison of various Taxpayer Assistance Center activity levels for the 2011 through 2013 Filing Seasons.

VIII. Identified results for the IRS Toll-Free Telephone Assistance Program by reviewing Performance Templates and Executive Level Summary reports from the Enterprise Telephone Data Warehouse for the filing season.

IX. Identified results for IRS self-assistance through IRS.gov from the IRS Weekly Filing Season reports of IRS.gov activity levels for the 2010 through 2013 Filing Seasons.

Data Reliability

To assess the reliability of computer-processed data, programmers in the Treasury Inspector General for Tax Administration Office of Strategic Data Services validated the data that were extracted, and we verified the data with appropriate documentation. Judgmental samples were selected and reviewed to ensure that the amounts presented were supported by external sources. We found the data to be sufficiently 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 the following internal controls were relevant to our audit objective: the processes for planning, organizing, directing, and controlling program operations for the 2013 Filing Season. We accomplished this by monitoring the IRS weekly production meetings, reviewing IRS procedures, and interviewing IRS management. We also evaluated the controls that are incorporated directly into computer applications to help ensure that the validity, completeness, accuracy, and confidentiality of transactions and data during application processing of tax returns for the 2013 Filing Season.

Appendix II

Major Contributors to This Report

Randee Cook, Acting Assistant Inspector General for Audit (Returns Processing and Account Services)
Russell P. Martin, Acting Assistant Inspector General for Audit (Returns Processing and Account Services)
Kyle Andersen, Director
Deann L. Baiza, Director
Bill R. Russell, Audit Manager
Lance J. Welling, Lead Auditor
Laura P. Haws, Senior Auditor
Linna K. Hung, Senior Auditor
Mark V. Willoughby, Senior Auditor
Nikole L. Smith, Auditor
Kim I. McMenamin, Audit Evaluator
Michelle S. Cove, Assistant Director, Information Technology
James M. Allen, Information Technology Specialist
Joseph C. Butler, Information Technology Specialist
Brian W. Hattery, Information Technology Specialist
Donald J. Meyer, Information Technology Specialist
Steven E. Vandigriff, Information Technology Specialist

Appendix III

Report Distribution List

Acting Commissioner
Office of the Commissioner – Attn: Chief of Staff C
Office of the Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Operations, Wage and Investment Division SE:W
Deputy Commissioner, Support, Wage and Investment Division SE:W
Director, Business Modernization Office, Wage and Investment Division SE:W:BMO
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division SE:W:CAR
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PEI
Director, Accounts Management, Wage and Investment Division SE:W:CAS:AM
Director, Field Assistance, Wage and Investment Division SE:W:CAR:FA
Director, Joint Operation Center, Wage and Investment Division SE:W:CAS:JOC
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Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
Director, E-file Services, Wage and Investment Division SE:W:CAS:SP:EFS
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Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PEI

Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Increased Revenue – Potential; $354,149,000 in EITC due diligence penalties not assessed on 122,133 tax return preparers who did not include a Form 8867, *Paid Preparer's Earned Income Credit Checklist*, with tax returns claiming the EITC (see page 13).

Methodology Used to Measure the Reported Benefit:

We computer identified 122,133 tax return preparers who prepared 708,298 tax returns with EITC claims for which they did not include the Form 8867 as required. Tax return preparers are subject to a $500 penalty for each tax return with an EITC claim for which the Form 8867 is not provided. We estimate that total penalties on the 708,298 tax returns with a missing or incomplete Form 8867 could total $354,149,000.

Type and Value of Outcome Measure:

- Cost Savings, Funds Put to Better Use – Potential; $37,780,021 from 30,822 taxpayers claiming refundable AOTC in Tax Year 2012 for students who are of an age at which they are unlikely to be enrolled in a four-year college or vocational program (see page 16).

Methodology Used to Measure the Reported Benefit:

We identified 30,822 taxpayers who erroneously claimed $37,780,021 in the AOTC on tax returns processed during the period January 1 through May 2, 2013. These taxpayers received tax refunds for the AOTC for students who are younger than age 14 or older than age 65.

Type and Value of Outcome Measure:

- Revenue Protection – Potential; $20,711,762 from 27,764 taxpayers claiming Lifetime Learning Credits for Tax Year 2012 for students who are of an age at which they are unlikely to be enrolled in a four-year college or vocational program (see page 16).

Methodology Used to Measure the Reported Benefit:

We computer identified 27,764 taxpayers who erroneously claimed $20,711,762 in Lifetime Learning Credits on tax returns processed during the period January 1 through May 2, 2013. These taxpayers received tax refunds for education credits for students who are younger than age 14 or older than age 65.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 52,031 taxpayers making their annual First-Time Homebuyer Credit installment payment were erroneously assessed $10,477,897 more in Homebuyer Credits than they were required to pay (see page 19).

Methodology Used to Measure the Reported Benefit:

We computer identified 114,243 tax returns with 190,889 taxpayers who had been manually assessed a Homebuyer Credit repayment amount for a home purchased in Tax Year 2008. We reviewed a statistically valid sample of 383 of the returns and found that 99 (26 percent) returns for 163 taxpayers were erroneously assessed $32,826 more in additional Homebuyer Credits than they were required to repay.

Based on these results, we estimate that the IRS erroneously assessed 52,031 taxpayers $10,477,897 more in additional Homebuyer Credits than they were required to pay. Our taxpayer projection is based on a 95 percent confidence level, a point estimate of 52,031, and a range of 45,223 to 58,839. Our dollar projection is based on a 95 percent confidence level, a point estimate of $10,477,897, and a range of $8,522,332 to $12,433,462.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 239 accounts belonging to taxpayers who disposed of their home due to a divorce and had their remaining Homebuyer Credit repayment amount overstated by $956,576 (see page 19).

Methodology Used to Measure the Reported Benefit:

We computer identified 2,288 accounts of taxpayers who disposed of their home due to a divorce and were no longer responsible to repay the Homebuyer Credit. Our review of the 2,288 taxpayer accounts identified 239 (10 percent) where the IRS overstated the taxpayers' remaining Homebuyer Credit repayment amount by $956,576.

Appendix V

Glossary of Terms

Average Speed of Answer	The average number of seconds taxpayers waited in the assistor queue (on hold) before receiving services.
Customer Service Representative Level of Service	The relative success rate of taxpayers who call for live assistance on the IRS toll-free telephone lines.
Earned Income Tax Credit	A refundable Federal tax credit for low-income working individuals and families.
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.
Enterprise Telephone Data Warehouse	The official source for all data related to toll-free telephone system measures and indicators.
Facilitated Self-Assistance	An initiative to provide self-help assistance kiosks at Taxpayer Assistance Centers. The kiosks can be used by taxpayers to access IRS.gov to file their tax returns, print tax forms and publications, or conduct tax research.
Filing Season	The period from January 1 through mid-April when most individual income tax returns are filed.
First-Time Homebuyer Credit	A refundable Federal tax credit for individuals who purchase a home.
Fiscal Year	A 12-consecutive-month period ending on the last day of any month. 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 Return Transaction File	A database the IRS maintains that contains information on the individual tax returns it receives.

Processing Year	The calendar year in which the return or document is processed by the IRS.
Sequester	A set of automatic mandatory spending cuts implemented by Federal law that affect Government outlays.
Submission Processing Site	The data processing arm of the IRS. The sites process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Tax Year	The 12-month period for which tax is calculated. For most individual taxpayers, the tax year is synonymous with the calendar year.
Taxpayer Assistance Centers	Walk-in sites where taxpayers can obtain answers to both account and tax law questions as well as receive assistance in preparing their tax returns.
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 $50,000 and below), the elderly, persons with disabilities, and persons with limited-English proficiency.

Appendix VI

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

SEP 24 2013

MEMORANDUM FOR MICHAEL E. MCKENNEY
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Peggy Bogadi Peggy Bogadi
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Late Legislation Delayed the Filing of Tax Returns and Issuance of Refunds for the 2013 Filing Season (Audit # 201340010)

We appreciate the opportunity to review the draft report on the challenges the IRS faced and overcame in successfully executing the 2013 Filing Season. Despite tax legislation enacted on January 2, 2013, we programmed and tested our return processing systems within an extremely compressed timeframe and opened the Filing Season for most taxpayers only one week later than originally planned. Once we were able to accept and process returns, the actual processing time and length of time for taxpayers to receive their refunds remained within our target timeframes. Most taxpayers received their refunds within 21 days or less from the time their returns were filed.

In addition, we successfully used the Modernized e-File system as our sole platform for processing electronic returns. As of August 23, 2013, we had received more than 117 million electronic individual income tax returns and achieved an e-File rate in excess of 84 percent. We have also experienced gains in our ability to detect and stop fraudulent tax returns before they are processed. By proactively identifying and flagging the accounts of individuals most vulnerable to identity theft, and by substantially expanding our fraud detection processes, more fraudulent returns are being removed from the processing system. This results in better protection for potential victims and a reduction of the risks and costs borne by the IRS.

We also expanded our efforts to reduce the payment of erroneous claims for the Earned Income Tax Credit (EITC). Final regulations addressing the requirement for paid tax return preparers to include Form 8867, *Paid Preparer's Earned Income Credit Checklist*, with returns claiming EITC, were issued in late December 2011. The IRS quickly expanded its outreach program to educate the practitioner community. The outreach activities included specifically notifying 5,000 EITC preparers who had not included Form 8867 with the Tax Year 2011 returns they prepared. We also worked with the software development community to ensure the Form 8867 was available for Tax Year

2

2012 return preparation software products. Despite these efforts, systemic issues were discovered that caused Form 8867 to appear incomplete or missing from some software products. We worked with the software vendors to resolve the problem; however, the data set for those Tax Year 2012 returns whose paid preparers may be subject to the due diligence penalty does not have an accuracy level sufficient for the IRS to assert the penalty without additional analysis.

Our in-process review of returns that meet our penalty criteria has found that 65,749 returns, prepared by 2,474 paid return preparers, claiming $151.6 million of EITC had no Form 8867 attached to the return. This is significantly less than the 158,348 returns, prepared by 52,826 preparers, claiming $362 million of EITC, as reported by the Treasury Inspector General for Tax Administration (TIGTA). Consequently, we do not agree with the associated Outcome Measure of $354 million, as it is overstated. When our analysis is completed, we will pursue penalty assertion for those previously non-compliant return preparers who were notified of the due diligence requirements. With the resolution of technical issues affecting the penalty administration, we are prepared to fully enforce the due diligence provisions in the upcoming 2014 Filing Season.

We also disagree with the $37.7 million Outcome Measure associated with the American Opportunity Tax Credit and the $20.7 million Outcome Measure associated with the Lifetime Learning Credit claimed for Tax Year 2012 by students who are of an age at which they are unlikely to be enrolled in a four-year college or vocational program. The law providing the education credits and defining student eligibility does not establish minimum ages, maximum ages, or likely ages at which students may qualify for the credits. While student age is one attribute to be considered when evaluating the potential for an erroneous or fraudulent claim, it cannot be the sole determinant. Establishing a likely age for pursuing post-secondary education is subjective. The IRS does consider the age of students, along with other criteria, as part of a comprehensive screening process to evaluate the fraud potential of the entire return and to stop those refunds from being issued when additional scrutiny is deemed necessary. The student age is also considered in a post-processing environment when returns are scored for audit potential. The macro-level data analysis performed by the TIGTA did not take the next step of contacting taxpayers to ascertain facts and circumstances, and determine whether their credit claims were legitimate or not.

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

Attachment

Attachment

RECOMMENDATION 1
The Commissioner, Wage and Investment Division, should ensure that the EITC due diligence penalty is assessed against tax return preparers who did not comply with the requirement to attach a Form 8867 to tax returns with a claim for the EITC.

CORRECTIVE ACTION
We will complete our analysis of the Tax Year 2012 returns that were prepared by paid tax return preparers and did not have the required Form 8867, *Paid Preparer's Earned Income Credit Checklist*. The penalty for failure to comply with due diligence requirements when determining eligibility for the Earned Income Credit will be asserted in those cases where Letter 4989, *You Submitted 2011 Client Returns with EITC Without Attaching Form 8867*, was issued and the preparer remained non-compliant in the 2013 Filing Season. To effectively manage resources and administer the penalty in a balanced and uniform manner, penalties will be asserted against those preparers determined to be egregious or habitual.

IMPLEMENTATION DATE
January 15, 2014

RESPONSIBLE OFFICIAL
Director, Return Integrity and Correspondence Services, Wage and Investment Division

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

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 2
Update filters to ensure that all instances in which taxpayers claim students whose age indicates it is not likely they are attending college are identified during tax return processing as a potentially questionable education credit claim.

CORRECTIVE ACTION
The IRS has implemented filters and business rules during return processing that consider the age of students for whom education credits are claimed. The age of students is a factor that contributes to the determination of fraud probability, but is not a reliable sole determinant of erroneous claims. The statute authorizing education credits and defining eligibility criteria does not impose age limits or otherwise indicate likely ages for qualification. Business rules are also in place, and used by the Compliance function, to evaluate student ages when considering tax returns to be selected for audit.

The processing and post-processing filters and business rules are frequently evaluated to ensure effectiveness and balance in identifying fraudulent or erroneous claims without unduly flagging those claims most likely to be accurate.

IMPLEMENTATION DATE
Implemented

RESPONSIBLE OFFICIALS
Director, Return Integrity and Correspondence Services, Wage and Investment Division
Director, Reporting Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 3
Initiate a program to recover the more than $58 million from the 42,961 taxpayers who received education credits for students who were of an unlikely age to be eligible for the credits.

CORRECTIVE ACTION
The Compliance functions will select a sample set of returns for inclusion in the Fiscal Year 2014 Exam Plan. The results of the sample examinations will be evaluated and considered in determining if expansion of the sample is an appropriate use of limited resources, or if the issue displaces other work that is more productive.

IMPLEMENTATION DATE
January 15, 2015

RESPONSIBLE OFFICIALS
Director, Reporting Compliance, Wage and Investment Division
Director, Campus Reporting Compliance, 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:

3

RECOMMENDATION 4
Correct the programming error that resulted in the over assessment of an estimated $10.5 million in Homebuyer Credit installment payments to 52,031 taxpayers and continue to evaluate the remaining erroneous assessments we identified and take action to correct any conditions identified.

CORRECTIVE ACTION
Programming changes to resolve the errors that led to the erroneous Homebuyer Credit assessments have been identified and are expected to be implemented for the 2014 Filing Season. It should be noted however, that programming changes are dependent upon Information Technology resource availability and Servicewide technology priorities. We will continue to evaluate erroneous assessments that were made and ensure the accounts are adjusted appropriately.

IMPLEMENTATION DATE
February 15, 2014

RESPONSIBLE OFFICIALS
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
Ensure that actions are taken to implement computer programming changes to address errors identified during the 2012 Filing Season to prevent the continued errors in processing Homebuyer Credit dispositions.

CORRECTIVE ACTION
Programming changes to resolve the errors that led to incorrect processing of Homebuyer Credit information when dispositions occurred are expected to be implemented for the 2014 Filing Season. It should be noted however, that programming changes are dependent upon Information Technology resource availability and Servicewide technology priorities. We will continue to evaluate erroneous assessments that were made and ensure the accounts are adjusted appropriately.

IMPLEMENTATION DATE
February 15, 2014

RESPONSIBLE OFFICIALS
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
Initiate a program to correct the 239 taxpayers' accounts where the IRS incorrectly recorded the transfer of the net Homebuyer Credit repayment obligation in the case of a divorce.

CORRECTIVE ACTION
We are obtaining an extract of accounts from the Master File to identify all accounts affected by the First Time Homebuyer Credit programming errors, and will adjust them to reflect their correct status.

IMPLEMENTATION DATE
October 15, 2014

RESPONSIBLE OFFICIALS
Director, Accounts Management, 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.

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 7
Establish procedures to ensure that the VIN provided for each vehicle claimed on Form 8936 is 17 characters long and, using the characteristics of the VIN, ensure that the vehicle is eligible before allowing the Plug-in Motor Vehicle Credit.

CORRECTIVE ACTION
We are evaluating changes to Form 8936, *Qualified Plug-in Electric Drive Motor Vehicle Credit*, which will ensure reported Vehicle Identification Numbers (VIN) contain the requisite number of characters. ***2****
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IMPLEMENTATION DATE
February 15, 2016

RESPONSIBLE OFFICIALS
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

Initiate a program to recover the erroneous Plug-in Motor Vehicle Credits the IRS allowed on the 574 tax returns we identified.

CORRECTIVE ACTION

We have developed a business rule to identify returns claiming the Plug-in Motor Vehicle Credits for additional review. The Compliance functions will select a sample set of returns for inclusion in the Fiscal Year 2014 Exam Plan. The results of the sample examinations will be evaluated and considered in determining if expansion of the sample is an appropriate use of limited resources, or if the issue displaces other work that is more productive.

IMPLEMENTATION DATE

March 15, 2015

RESPONSIBLE OFFICIALS

Director, Reporting Compliance, Wage and Investment Division
Director, Campus Reporting Compliance, Small Business/Self Employed Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.