TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

American Rescue Plan Act: Assessment of the Expanded Child and Dependent Care and Earned Income Tax Credits

June 15, 2023

Report Number: 2023-47-037

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HIGHLIGHTS: American Rescue Plan Act: Assessment of the Expanded Child and Dependent Care and Earned Income Tax Credits

Final Audit Report issued on June 15, 2023 **Report Number 2023-47-037**

Why TIGTA Did This Audit

This audit was initiated to follow up on prior audit recommendations and assess the adequacy of the IRS's processes and procedures to ensure that expanded eligibility requirements for the Child and Dependent Care Credit (CDCC) and the self-only Earned Income Tax Credit (EITC) for Tax Year 2021 were met.

Impact on Tax Administration

The American Rescue Plan Act of 2021 temporarily expanded the CDCC and self-only EITC for Tax Year 2021. These changes made the CDCC one of the largest refundable tax credits administered by the IRS for Tax Year 2021. Refundable credits present a unique risk to tax administration because taxpayers not only can have their tax reduced to zero; they can also receive a "refund" of excess credit. The unintended consequences of refundable credits are that they can result in the issuance of improper payments and can be the target of unscrupulous individuals. As such, they pose a significant risk as an avenue for those seeking to defraud the Government.

As of May 5, 2022, the IRS processed more than 5.1 million tax returns claiming refundable CDCC totaling more than $11.1 billion.

What TIGTA Found

The IRS did not update business rules to reflect changes made to the Form 2441, *Child and Dependent Care Expenses*, for Tax Year 2021. TIGTA alerted IRS management of our concern in February 2022, and they created three new business rules and revised seven business rules. For the three rules implemented after TIGTA brought these concerns to IRS management's attention, the IRS found that 932 taxpayers had more than $2.2 million in CDCC claims rejected before the return was accepted.

TIGTA also determined that IRS management needs to take additional actions to address prior agreed to recommendations. While IRS management took action to implement some of the recommendations TIGTA made in March 2022, some prior concerns and recommendations were not fully addressed. For example, our review of tax returns filed as of May 5, 2022, continued to identify 3,573 returns with potentially erroneous CDCCs totaling $6.8 million with obviously invalid care provider Taxpayer Identification Numbers.

In addition, TIGTA identified that taxpayers who have Social Security Numbers not eligible for work continue to receive erroneous EITC. As of May 5, 2022, there were a total of 7,486 electronically filed tax returns identified by the IRS's prerefund filters and through TIGTA's analysis that did not meet the requirements for self-only EITC. However, with the appropriate legal authority, the IRS could reject these returns without creating any legal risk and prevent more than $2.9 million in improper payments.

Finally, CDCCs were allowed which exceeded the statutory limits allowed by law due to employee errors and a lack of controls. For example, TIGTA identified 61 returns that received $203,535 more in refundable CDCC claims than allowed by the law.

What TIGTA Recommended

TIGTA made nine recommendations to the IRS that included ensuring that programming is updated for Processing Year 2023 to identify taxpayers who reported an obviously invalid care provider Taxpayer Identification Number on the Form 2441. TIGTA also recommended that the IRS work with the Department of the Treasury, Office of Tax Policy, to advance legislation to treat a tax return as filed only when it is accepted, allowing the IRS to remove the legal risk of rejecting tax returns.

The IRS agreed with seven recommendations. The IRS disagreed with two recommendations. IRS management did not agree to develop a tool or programming to ensure that tax returns with prior year expenses are systemically identified. Management also did not agree to review the 774,559 returns TIGTA identified that received more than $668.8 million in self-only EITC [redacted], and to recover credits that are determined to be erroneous.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

June 15, 2023

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

Heather Hill

FROM: Heather M. Hill
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – American Rescue Plan Act: Assessment of the Expanded Child and Dependent Care and Earned Income Tax Credits (Audit # 202240709)

This report represents the results of our review to assess the adequacy of processes and procedures to ensure that the expanded eligibility requirements for the Child and Dependent Care Credit (CDCC) and self-only Earned Income Tax Credit (EITC) for Tax Year 2021 were met. This review is part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management and performance challenges of *Administering Tax Law Changes* and *Reducing Tax Fraud and Improper Payments*.

Management's complete response to the draft audit report is included as Appendix IV. If you have any questions, please contact me or Diana M. Tengesdal, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

Table of Contents

Appendices

Background

The American Rescue Plan Act of 2021 (ARPA) temporarily expanded the Child and Dependent Care Credit (CDCC) for Tax Year (TY) 2021.[1] The expansion made the CDCC fully refundable for taxpayers whose main home was in the United States for more than one-half of the year.[2] The maximum amount of credit also increased from $1,050 to $4,000 for one qualifying person and from $2,100 to $8,000 for two or more qualifying persons. These changes made the CDCC one of the largest refundable tax credits administered by the IRS for Tax Year 2021. Refundable credits present a unique risk to tax administration because taxpayers not only can have their tax reduced to zero; they can also receive a "refund" of excess credit.

As of May 5, 2022, the IRS processed more than 5.1 million tax returns claiming refundable CDCC totaling more than $11.1 billion. Taxpayers claim the CDCC by filing Form 2441, *Child and Dependent Care Expenses*. The form requires taxpayers to enter information about their care provider, *i.e.,* name, address, Taxpayer Identification Number (TIN), and the amount paid.[3]

Expansion of the EITC

The ARPA also temporarily expanded the eligibility rules and the amount of Earned Income Tax Credit (EITC) for taxpayers with no qualifying children, *i.e.,* self-only, for TY 2021. Figure 1 shows the various changes made by the ARPA to the self-only EITC.

Figure 1: Self-Only EITC Requirements Changes

	Rules for TY 2020	ARPA Rules for TY 2021
Maximum EITC	$538	$1,502
Maximum Adjusted Gross Income	$21,710 Married Filing Jointly; $15,820 all other eligible filing statuses	$27,380 Married Filing Jointly: $21,430 all other eligible filing statuses
Earned Income Amount for Maximum Credit	$4,220	$9,820
Phase Out Amount Begins	$5,280	$11,610
Credit Percentage	7.65%	15.3%
Phase Out Percentage	7.65%	15.3%
Maximum Investment Income	$3,650	$10,000[4]

[1] Pub. L. No. 117-2, 135 Stat. 8 (codified in scattered sections of 7, 12, 15, 19, 20, 26, 29, 42, and 45 U.S.C.). See Appendix V for a Glossary of Terms.

[2] In the case of a joint return, this requirement is met when either spouse has a principal place of abode in the United States for more than one-half of the taxable year.

[3] There are specific rules about who is an eligible care provider or qualifying person that are explained in Publication 503, *Child and Dependent Care Expenses*.

[4] The increase in maximum investment income to $10,000 applies to TY 2021 and is indexed to inflation for subsequent tax years.

	Rules for TY 2020	ARPA Rules for TY 2021
Minimum Age for Eligibility	25	19; 24 for specified student; 18 for qualified former foster/homeless youth
Maximum Age for Credit	64	N/A

Source: Treasury Inspector General for Tax Administration (TIGTA) comparison of TYs 2020 and 2021 EITC provisions.

Prior audit recommended enhancements to fix processing control weaknesses

As previously noted, the changes in the ARPA made the CDCC one of the largest refundable credits during Tax Year 2021. The unintended consequences of refundable credits are that they can result in the issuance of improper payments and can be the targets of unscrupulous individuals. As such, they pose a significant risk as an avenue for those seeking to defraud the Government.

Recognizing the significant risk of potentially improper/fraudulent CDCC claims, we evaluated Tax Year 2019 tax returns that received CDCCs to evaluate IRS processes to detect potentially fraudulent and erroneous claims. In March 2022, we reported on a number of weaknesses in the controls over the processing of CDCC claims.[5] We issued 11 alerts and made nine recommendations to the IRS so management could address the deficiencies we identified before taxpayers began filing claims for the refundable CDCC during Processing Year 2022. This current review assesses the sufficiency of management's corrective actions and evaluates the expansion of the CDCC and the EITC for taxpayers with no qualifying children.

Results of Review

Programming Updated to Reject Tax Returns With Erroneous Child and Dependent Care Credit Claims

Business rules and error codes are two methods for the Internal Revenue Service (IRS) to correct tax returns before refunds are issued to taxpayers. Our review identified five new or modified CDCC business rules and one error code for TY 2021 as a result of the expanded CDCC.[6] Our initial testing of the new or modified business rules for tax returns accepted through January 28, 2022, identified concerns that the business rules were not rejecting erroneous tax returns. However, management took actions during our review to correct the programming deficiencies. Our subsequent analysis of tax returns accepted and rejected by the IRS between

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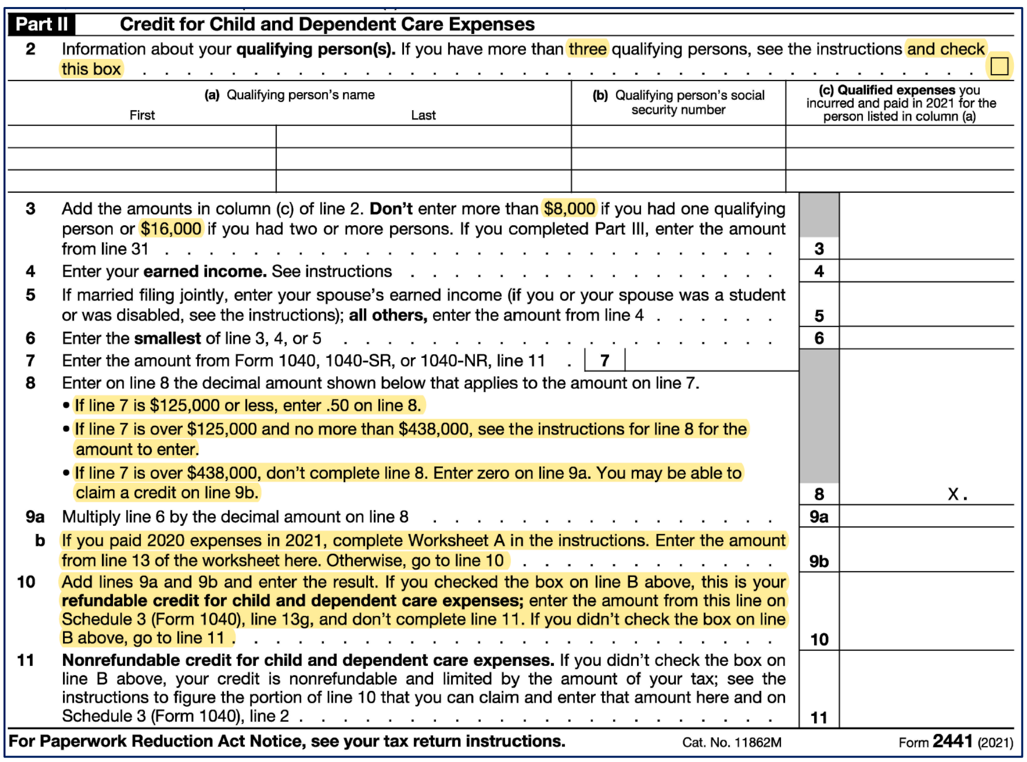
[5] TIGTA Report No. 2022-47-023, *American Rescue Plan Act: Assessment of the Processes to Identify and Address Improper Child and Dependent Care Credit Claims* (Mar. 2022).

[6] Business Rules: F2441-002-04, F2441-011-02, F2441-526, F2441-001-01, and F2441-024. Error Code: 363. Business Rule F2441-023 was disabled for TY 2021.

January 18 and May 5, 2022, found that the business rules and error code worked as intended after programming updates were implemented.

As previously noted, the CDCC became refundable for TY 2021. The IRS updated Form 2441 for TY 2021 to include the credit totals for both the refundable and nonrefundable CDCC amounts. However, our review of the business rules for TY 2021 found that the business rules were not updated to reflect these changes. For example, the business rules were not updated to account for the new refundable CDCC amount listed on Line 10 of the Form 2441. Figure 2 highlights all of the changes made to Part II, *Credit for Child and Dependent Care Expenses*, on the TY 2021 Form 2441.

Figure 2: Changes to Form 2441 Part II for TY 2021



Part II **Credit for Child and Dependent Care Expenses**

2 Information about your **qualifying person(s).** If you have more than three qualifying persons, see the instructions and check this box . . . ☐

(a) Qualifying person's name — First	Last	(b) Qualifying person's social security number	(c) Qualified expenses you incurred and paid in 2021 for the person listed in column (a)

3 Add the amounts in column (c) of line 2. **Don't** enter more than $8,000 if you had one qualifying person or $16,000 if you had two or more persons. If you completed Part III, enter the amount from line 31 . . . **3**

4 Enter your **earned income.** See instructions . . . **4**

5 If married filing jointly, enter your spouse's earned income (if you or your spouse was a student or was disabled, see the instructions); **all others,** enter the amount from line 4 . . . **5**

6 Enter the **smallest** of line 3, 4, or 5 . . . **6**

7 Enter the amount from Form 1040, 1040-SR, or 1040-NR, line 11 . **7**

8 Enter on line 8 the decimal amount shown below that applies to the amount on line 7.

- If line 7 is $125,000 or less, enter .50 on line 8.
- If line 7 is over $125,000 and no more than $438,000, see the instructions for line 8 for the amount to enter.
- If line 7 is over $438,000, don't complete line 8. Enter zero on line 9a. You may be able to claim a credit on line 9b.

8 X.

9a Multiply line 6 by the decimal amount on line 8 . . . **9a**

b If you paid 2020 expenses in 2021, complete Worksheet A in the instructions. Enter the amount from line 13 of the worksheet here. Otherwise, go to line 10 . . . **9b**

10 Add lines 9a and 9b and enter the result. If you checked the box on line B above, this is your **refundable credit for child and dependent care expenses;** enter the amount from this line on Schedule 3 (Form 1040), line 13g, and don't complete line 11. If you didn't check the box on line B above, go to line 11 . . . **10**

11 **Nonrefundable credit for child and dependent care expenses.** If you didn't check the box on line B above, your credit is nonrefundable and limited by the amount of your tax; see the instructions to figure the portion of line 10 that you can claim and enter that amount here and on Schedule 3 (Form 1040), line 2 . . . **11**

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11862M Form **2441** (2021)

Source: Part II of TY 2021 Form 2441.

Recommendation 1 (E-Mail Alert): On February 17, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of our concern with three business rules and recommended that IRS management update the business rule programming to identify and evaluate returns for both refundable and nonrefundable CDCC claims.

> **Management's Response to Alert:** IRS management agreed with our concern and indicated they were also reviewing additional business rules prior to our e-mail alert. IRS management noted that they created three new business rules and modified seven business rules. The new and revised rules became effective on March 20, 2022.

Our analysis of accepted and rejected returns with an attached Form 2441 filed between March 20 and September 30, 2022, found that the three new business rules and seven modified business rules were working as intended. For the three rules we brought to management's attention, management found that 932 taxpayers had more than $2.2 million in CDCC claims rejected before the return was accepted.

Management Needs to Take Additional Actions to Address Prior Agreed to Recommendations

Our review of the IRS's processes and procedures found that the IRS took action to address five (of nine) prior recommendations and four (of eleven) concerns documented in e-mail alerts. We issued e-mail alerts to IRS management during our prior review so they could take immediate corrective action and minimize any impact on taxpayers/tax administration. However, additional actions are warranted to fully address the remaining four prior audit recommendations.

Actions were taken to fully address prior concerns and recommendations

Figure 3 summarizes actions taken by the IRS, for which we identified no additional concerns. The reference number provided indicates the number of the recommendation or alert and page number it appears on in our prior report.

Figure 3: Prior Alerts/Recommendations That Were Fully Implemented

Reference Number	Recommendation	Actions Taken
E-mail alert (Page 9) Care provider reported on the Form 2441 was not an eligible care provider.	No formal recommendation made.	IRS management revised its internal guidance to instruct employees to disallow expenses if the care provider TIN is the same as the primary taxpayer, spouse, or a dependent of the taxpayer.
E-mail alert (Page 10) Qualifying person's information missing from Form 2441.	No formal recommendation made.	IRS management revised its internal guidance to provide additional clarification to employees reviewing paper-filed returns and updated its programming to reject electronically filed (e-filed) returns with missing information.
E-mail alert (Page 10) Qualifying person(s) listed on the Form 2441 was not alive.	No formal recommendation made.	IRS management created a compliance filter. However, as of December 28, 2022, the IRS has not selected any returns for prerefund or post-refund examination.
E-mail alert (Page 11) Earned income was not reported for both the primary and secondary taxpayers.	No formal recommendation made.	IRS management issued an alert to employees on reinforcing internal guidance.
Recommendation #1 (Page 13)	Update processes to [redacted], and the amount paid to the care provider from Form 2441.	N/A – IRS management did not make any procedural changes because the CDCC was not extended as a refundable credit beyond TY 2021. **Audit Note:** Action no longer warranted.

Reference Number	Recommendation	Actions Taken
Recommendation #2 (Page 13)	Update paper verification processes to generate errors in the Error Resolution System when the [redacted], or amounts paid to the care provider are missing.	N/A – IRS management did not request programming changes because the CDCC was not extended as a refundable credit beyond TY 2021. **Audit Note:** Action no longer warranted.
Recommendation #3 (Page 15)	Revise Form 2441 to include checkboxes to note whether dependent care expenses are for a spouse or dependent who is physically or mentally incapable of caring for themselves or if special deemed earned income rules apply.	IRS management revised Form 2441 for TY 2022 to include a checkbox as we had recommended.
Recommendation #5 (Page 16)	Work with the Department of the Treasury, Office of Tax Policy, to obtain the legal authority to disallow the CDCC when the primary or secondary taxpayer has an [redacted] Individual Taxpayer Identification Number (ITIN).	IRS management drafted and elevated the legislative proposal to the Office of Tax Policy on September 1, 2022.
Recommendation #7 (Page 17)	Revise Form 2441 instructions and Publication 503, using examples, so taxpayers may better understand the requirements.	IRS management added two examples on Page 8 of Publication 503, under "Camp," to help clarify that expenses incurred for summer camp qualify for the credit, but expenses incurred for summer tutoring do not qualify.

Source: TIGTA's review of actions taken in response to recommendations and alerts made in Report No. 2022-47-023 issued in March 2022.

Prior concerns and recommendations were not fully addressed

Figure 4 summarizes the actions taken or not taken by the IRS to address our prior concerns and recommendations for which we determined that additional action is needed. The reference number provided indicates the number of the recommendation or alert and page number in our prior report.

Figure 4: Prior Alerts/Recommendations Where Additional Action Is Needed

Reference Number	Recommendation	Actions Taken
E-mail alert (Page 10) - Invalid care provider TIN.	No formal recommendation made.	IRS management revised its internal guidance to provide additional clarification to employees reviewing paper-filed returns and updated its programming to reject e-filed returns with obviously invalid care provider TINs, including Employer Identification Numbers and not just Social Security Numbers (SSN). **Audit Note:** Our review of tax returns filed as of May 5, 2022, identified 3,573 returns with potentially erroneous CDCCs totaling $6.8 million with obviously invalid TINs. IRS management updated two business rules to include Employer Identification Numbers for Processing Year 2023.
E-mail alert (Page 10) - Programming limitations allowed taxpayers to circumvent limits for prior year expenses.	No formal recommendation made.	IRS management created a compliance filter. **Audit Note:** Our analysis of TY 2021 tax returns with a Form 2441 processed as of May 5, 2022, identified 1,290 tax returns with erroneous prior year expense claims totaling almost $1.9 million when the taxpayers already claimed the maximum amount of qualified expenses for the prior year. The IRS's compliance filter identified 1,148 (89 percent) of these returns. However, as of November 10, 2022, the IRS has selected only 35 returns for prerefund audit. Management stated that the remaining 1,113 returns were not selected for prerefund audit due to resource limitations.
Recommendation #4 (Page 15)	Develop a process to identify tax returns with adult [redacted]. These tax returns should be considered for selection for post-refund compliance reviews.	IRS management developed a compliance filter for Processing Year 2022 to identify tax returns claiming the CDCC for an adult, who may not be disabled, for possible post-refund treatment. IRS management also stated that they would determine the scope of potential noncompliance of TY 2021 returns that meet their selection tolerances. **Audit Note:** As of July 21, 2022, the compliance filter identified 4,061 returns; however, the IRS plans to work only [redacted] returns ([redacted] percent) due to its dollar tolerances. IRS management does not plan to work [redacted] returns ([redacted]) with more than $10.7 million in potentially erroneous refundable CDCCs.

Reference Number	Recommendation	Actions Taken
E-mail alert (Page 11) Taxpayer used an [redacted] ITIN on Form 2441 to claim [redacted] **Recommendation #6 (Page 16)**	No formal recommendation made to identify and address claims where the primary or secondary taxpayer had an [redacted] ITIN. However, we recommended that the IRS develop a process to identify tax returns with [redacted] ITINs used to identify the care provider. These tax returns should be considered for selection for post-refund compliance reviews.	Management disagreed stating it does not have the legal authority to disallow these returns. Management has not created a compliance plan specific to [redacted] ITINs. While TIGTA agrees that the IRS currently does not have the legal authority to disallow the CDCC with an [redacted] ITIN at the time tax returns are processed, our recommendation focused on developing procedures to identify these claims to then address them via post-refund treatment. **Audit Note:** Our analysis of more than 5.5 million TY 2021 returns processed through May 5, 2022, that claimed the CDCC, identified 19,081 returns that used 15,349 unique [redacted] ITINs, totaling more than $46 million in refundable CDCCs.[7]
Recommendation #8 (Page 18)	Develop a process to identify tax returns with care provider [redacted]. These tax returns should be selected for post-refund compliance reviews.	Management disagreed and has not created a compliance plan to address this. **Audit Note:** We believe that reviewing the returns in a post-refund compliance review allows the IRS to look at the specific facts and circumstances of each situation.
Recommendation #9 (Page 19)	Develop a compliance plan for post-refund treatment of cases involving [redacted].	IRS management completed its assessment of Processing Year 2022 return data in March 2023 and does not plan to take any additional actions based on their review of the data. **Audit Note:** Our analysis of TY 2021 tax returns with a Form 2441 processed as of May 5, 2022, identified 528 [redacted] received $2.5 million in potentially erroneous refundable CDCCs.

Source: TIGTA's review of actions taken in response to recommendations and alerts made in Report No. 2022-47-023 issued in March 2022.

IRS management indicates that it does not always reject tax returns with a Form 2441 when the taxpayer does not appear to be eligible for the CDCC because an invalid credit does not preclude the IRS from accepting the tax return. As shown in Figure 4, there are numerous situations where the IRS accepts the return for processing and must then try to confirm the taxpayer's eligibility for the credit by selecting the returns through a compliance filter. However, the IRS is limited in the number of returns that it can address in a post-processing environment due to resource limitations. As a result, tens of millions of dollars of potentially erroneous credit claims go unaddressed each year.

7 [redacted].

Seeking legislative authority to treat a tax return as filed only when it is accepted would remove the legal risks of rejecting tax returns that include obviously invalid claims for credits and allow the IRS to more efficiently address these issues and provide better customer service to taxpayers.

The Commissioner, Wage and Investment Division, should:

Recommendation 2: Ensure that programming is updated for Processing Year 2023 to identify taxpayers who reported an obviously invalid care provider TIN on Form 2441.

> **Management's Response:** IRS management agreed with our recommendation. Management stated that programming updates were implemented for the 2023 filing season.

Recommendation 3: Develop a tool or programming for Error Resolution to ensure that tax returns claiming prior year expenses are systemically identified to determine if the maximum CDCC had been claimed in the prior year, before processing the return and potentially releasing erroneous refunds.

> **Management's Response:** IRS management disagreed with our recommendation. Management stated that verifying prior-year expenses is beyond the scope of math-error authority during return processing. Ascertaining the accuracy of a deduction based on prior-year claims must be done under existing deficiency procedures.

> > **Office of Audit Comment:** The IRS's internal guidance for its Error Resolution function provides instructions that addresses when the amount of the prior year expenses claimed exceeds the maximum allowable amounts. Our recommendation focuses on developing a process to identify tax returns with prior-year expenses for which maximum CDCC amounts have already been claimed in the prior year, to ensure that employees have this information during their verification process.

Additional Actions Are Needed to Ensure That Erroneous Earned Income Tax Credits Are Not Allowed

We identified one modified self-only EITC business rule and one error code for Processing Year 2022.[8] Our analysis of tax returns processed through May 5, 2022, found that the new error code was working as intended; however, [redacted]. We notified IRS management and they corrected the programming for Processing Year 2023.

Taxpayers with nonwork SSNs continue to receive erroneous EITC

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 requires individuals claiming the EITC to have a valid-for-work SSN and authorizes the IRS to deny claims to those individuals who file using an invalid SSN.[9] The taxpayer, spouse (if Married Filing

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[8] Business Rule: F1040-460. Error Code: 340.

[9] Pub. L. No. 104-193.

Jointly), and each qualifying child must have a valid SSN to be eligible to claim the EITC. For purposes of the EITC, a valid SSN is a number issued by the Social Security Administration to a U.S. citizen or to a noncitizen who obtained the SSN for purposes other than to obtain a benefit partially or fully funded by the Federal Government, *e.g.*, Medicaid, food stamps. "Benefit-only" SSNs are typically referred to as nonwork SSNs. A valid SSN does not include an ITIN, an Adoption Taxpayer Identification Number, or an IRS Number. We have previously issued several reports regarding our concerns with nonwork SSNs, as shown in Appendix III.

The IRS has processes in place to identify tax returns that claim self-only EITC with a nonwork SSN. These returns are identified for compliance review prior to the refund being issued. As of May 5, 2022, the IRS identified [redacted] returns meeting this condition, [redacted]. However, our analysis of more than 12.7 million TY 2021 tax returns claiming self-only EITC processed as of May 5, 2022, found that additional actions are needed to prevent potential erroneous EITC amounts. For example:

- Rejecting e-filed returns. The IRS currently does not reject e-filed tax returns claiming self-only EITC with a nonwork SSN, as it does not have the explicit legal authority to do so, as previously discussed in this report. Our analysis identified [redacted] tax returns claiming self-only EITC of more than $2.9 million associated with a nonwork SSN, which were not identified by the IRS for prerefund compliance because the refund amount was below the IRS's dollar tolerance. Further review of the [redacted] returns found that [redacted] (99.9 percent) were e-filed. In addition, the IRS identified [redacted] tax returns that met its dollar tolerance for compliance review, all but [redacted]. These 7,486 e-filed tax returns did not meet the requirements for self-only EITC. However, as previously stated, with the appropriate legal authority, the IRS could reject these returns without creating any legal risk and prevent more than $2.9 million in improper payments. In addition, management could save resources by not auditing the returns that were above the IRS's dollar tolerance. Unfortunately, IRS management does not track the costs to audit these returns. As such, we cannot estimate the potential cost savings.

The Commissioner, Wage and Investment Division, should:

Recommendation 4: Work with the Department of the Treasury, Office of Tax Policy, to advance legislation to treat a tax return as filed only when it is accepted. This would remove the legal risks associated with rejecting tax returns with conditions that indicate the taxpayer is ineligible for refundable credits claimed on the return.

> **Management's Response:** IRS management agreed with the recommendation. Management stated they will elevate this issue to the Office of Tax Policy for consideration as a legislative request.

Recommendation 5: If legislation is enacted, develop programming to reject e-filed returns meeting certain conditions, such as those noted in this report.

> **Management's Response:** IRS management agreed with the recommendation. Management stated that if legislation is enacted, they will review and determine the actions to be taken.

- Adding [redacted] to the compliance filter criteria. Our analysis identified 561 returns claiming self-only EITC of more than $780,000 whose [redacted]. This occurred because the compliance filter does not include this [redacted]. According to IRS management, [redacted] returns are not included in the criteria because there is potential for one spouse to provide substantiation and the other spouse may not, which would require a recalculation of the credits and would not fall within the limited scope of the prerefund program. Management also stated it must consider resource availability. We disagree with management's position as they have the ability to define the scope of work for their prerefund program. The IRS received more than $45.6 billion for tax enforcement as part of the Inflation Reduction Act of 2022.[10] Using enforcement resources to prevent erroneous amounts from being paid and educating taxpayers of their errors is a good use of IRS resources and provides better customer service to taxpayers.

Recommendation 6: The Commissioner, Wage and Investment Division, should ensure that the compliance filter criteria for identifying individuals claiming self-only EITC who are not eligible for work is updated to include the [redacted].

> **Management's Response:** IRS management agreed with the recommendation and revised pre-refund filters to include returns claiming [redacted].

- Ensuring that legislative changes are updated in compliance filter criteria. Our analysis identified 2,031 returns claiming more than $2.7 million in EITC that met the IRS's criteria for selection but were not selected for review. According to IRS management, this was because programming did not get updated for Processing Year 2022 to account for the increased self-only EITC amounts allowed by the ARPA.

Recommendation 7: The Commissioner, Wage and Investment Division, should establish processes to compare subsequent legislative changes with compliance filter programming to identify and make necessary changes, as needed.

> **Management's Response:** IRS management agreed with the recommendation and conducts program assessments annually to ensure rules are accurate and selections are as intended.

Ineligible ****2**** received erroneous EITC ****2****

As noted in Figure 1, the ARPA increased the maximum amount of self-only EITC from $538 in TY 2020 to $1,502 in TY 2021. It also expanded the number of individuals eligible for the credit by increasing the maximum income amounts, lowering the minimum age limitations from 25 to 19 ([redacted] and 18 for former foster or homeless youth), *etc.* In response to these legislative changes, the IRS created a compliance filter for Processing Year 2022 to identify [redacted] who were ineligible for self-only EITC. However, the IRS's criteria for this compliance filter selects only returns claiming both the EITC and the [redacted]. As a result, the IRS did not identify potentially ineligible [redacted] who claimed only the EITC.

[10] Public Law 117-169, 136 Stat. 1818 (2022).

Our analysis of TY 2021 tax returns claiming self-only EITC processed through May 5, 2022, identified 774,559 returns that received more than $668.8 million in self-only EITC. These taxpayers were [redacted] who were potentially not eligible for the EITC because the EITC eligibility criteria require [redacted]. IRS management indicated that their prerefund compliance criteria is designed to identify cases, with a high degree of confidence, where taxpayers will not qualify for the credit. Management also noted there are exceptions in which these taxpayers might qualify for the credit, *e.g.*, the taxpayer is a qualified homeless youth or qualified former foster youth. However, we disagree as the exceptions we identified most likely do not affect the majority of the population.

Management noted that it would not make sense to create a new compliance filter for subsequent tax years because the rule limiting EITC eligibility for [redacted] was only for TY 2021. We agree with the IRS's rationale. However, the IRS should take actions to identify and recover potentially erroneous credits from ineligible [redacted].

Recommendation 8: The Commissioner, Wage and Investment Division, should review the 774,559 returns with self-only EITC from potentially ineligible [redacted] and take actions needed to recover credits that are determined to be erroneous.

> **Management's Response:** IRS management disagreed with the recommendation. Management stated that they have a robust audit selection process, which considers many factors to balance resources across all compliance areas. The returns identified are subject to selection for examination as resources allow.
>
> > **Office of Audit Comment:** We are concerned with management's position to not address the potentially erroneous self-only EITC claims we identified during post-processing compliance. As noted by management, returns are selected for examination based on available resources. Given that the IRS for years has acknowledged that it has limited resources, it is unlikely that the more than $668.8 million potentially erroneous claims will be recovered.

Credits Exceeding the Statutory Limits Were Allowed Due to Employee Errors and a Lack of Controls

Our review of more than 5.5 million TY 2021 tax returns claiming the CDCC that were processed through May 5, 2022, identified 61 tax returns that allowed $203,535 more in refundable CDCCs than the maximum amount of the CDCC allowed by the law. The maximum amount of CDCC taxpayers were allowed for TY 2021 was $4,000 if the taxpayer had one qualifying person or $8,000 if the taxpayer had two or more qualifying persons. In September 2022, we notified IRS management of our concern and recommended that they open examinations for the tax returns we identified to correct the CDCC amounts. IRS management agreed.

According to IRS management, taxpayers were allowed more than the CDCC maximum due to errors made by employees during tax return processing. The IRS's internal guidance instructs employees in the Error Resolution function to manually compute the CDCC amounts and compare that to the amount claimed by the taxpayer in certain instances. Employees are instructed to override the taxpayer amount with the manually computed amount. Further, management stated that programming limitations prevent the IRS's systems from identifying instances where the amounts verified by employees exceed the maximum amount allowed. As such, the tax returns are not identified when employees make mistakes.

We previously identified this same issue during our review of the IRS's Error Resolution System. In December 2020, we reported that processes and procedures were needed to identify and correct entries by tax examiners resulting in millions of dollars in improper payments.[11] We recommended that the IRS develop processes and procedures to identify and correct tax examiner entries in verified fields that exceed statutory limits, including a process to ensure that tax returns with verified amounts are systemically reprocessed through error resolution programming before being released for processing. IRS management agreed with our recommendation but stated that programming is subject to Information Technology organization resources and other competing priorities. As of February 7, 2023, management noted that this recommendation was put on hold until December 15, 2023.

Recommendation 9: The Commissioner, Wage and Investment Division, should complete examinations for all 61 tax returns we identified to ensure taxpayers receive the correct CDCC amounts.

> **Management's Response:** IRS management agreed with the recommendation and will review the 61 returns and take appropriate action.

[11] TIGTA Report No. 2021-40-008, *Expansion of Self-Correction for Electronic Filers and Other Improvements Could Reduce Taxpayer Burden and Costs Associated With Tax Return Error Resolution* (Dec. 2020).

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to assess the adequacy of processes and procedures to ensure that expanded eligibility requirements for the CDCC and self-only EITC for TY 2021 were met. To accomplish our objective, we:

- Determined if the IRS's new or revised business rules were appropriately rejecting incorrect/incomplete Forms 2441 and Schedules EIC, *Earned Income Credit*, claims for self-only EITC.
- Determined if the IRS's new or revised Error Resolution codes correctly identified incorrect/incomplete Forms 2441 and Schedules EIC and disallowed the CDCC or self-only EITC claimed on tax returns with errors.
- Determined if the IRS's compliance filters adequately identified and addressed incorrect claims for the CDCC and self-only EITC.
- Evaluated the actions taken by the IRS to address processing weaknesses identified during our previous CDCC audit.

Performance of This Review

This review was performed with information obtained from the IRS Wage and Investment Division's Submission Processing and Return Integrity and Compliance Services functions in Atlanta, Georgia, and the Tax Processing Center in Kansas City, Missouri, during the period December 2021 to February 2023. 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.

Major contributors to the report were Diana Tengesdal, Acting Assistant Inspector General for Audit (Returns Processing and Account Services); Linna Hung, Director; Jeffrey Cullum, Audit Manager; Paula Johnson, Audit Manager; Edgar Moon, Lead Auditor; Jordan Bunte, Auditor; Alexis Gomez, Auditor; and Audrey Graper, Auditor.

Validity and Reliability of Data From Computer-Based Systems

During this review, we obtained data extracts from the IRS's Master File, Modernized Tax Return Database, National Account Profile (NAP), and Individual Return Transaction File (IRTF) databases for Processing Year 2022 that were available on TIGTA's Data Center Warehouse. We obtained extracts of Tax Year 2021 Forms 2441, Schedules EIC, and Forms 1098-T to evaluate IRS processing of tax returns with a CDCC or EITC claim. Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected random samples of either the extract or the results throughout the analysis and verified that the data in the extracts were the same as the data captured in the IRS's Integrated Data Retrieval System and Employee User Portal. We also performed analysis to ensure the validity and reasonableness of our data, such as ranges of dollar values and tax periods. Based on the results of our testing, we believe that the data used in our review were sufficiently reliable for the purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: processes for the IRS's implementation of the expanded CDCC and self-only EITC eligibility requirements. We tested these controls by reviewing and analyzing relevant documents, data, and calculations related to the issuance of the CDCC and self-only EITC and meeting with IRS management.

Appendix II

Outcome Measures

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

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Actual; $2,222,772 in refundable CDCCs claimed by 932 taxpayers that were rejected due to programming updates as a result of our e-mail alert issued February 17, 2022 (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

As a result of our e-mail alert, the IRS implemented corrective actions on March 20, 2022, revising three business rules. The IRS identified 932 unique taxpayers for a total of $2,222,772 in refundable CDCCs that were rejected after the corrective actions were implemented.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $2,518,933 in erroneous refundable CDCCs on 1,054 returns for [redacted] (see page 7).

Methodology Used to Measure the Reported Benefit:

We obtained an extract of more than 5.5 million TY 2021 returns claiming the CDCC that were processed through May 5, 2022, from the IRTF. We subsequently limited our review to returns receiving the CDCC. We queried the returns receiving the CDCC to identify tax returns that had a [redacted]. We obtained address information for [redacted]. We queried the population to identify tax returns where the [redacted]. Our analysis identified [redacted] returns with potentially erroneous refundable CDCCs totaling $2,523,644. However, we found that [redacted] were included in other outcome measures and we reduced our outcome accordingly.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $6,807,639 in refundable CDCCs erroneously received on 3,572 returns due to a programming error (see Recommendation 2).

Methodology Used to Measure the Reported Benefit:

We obtained an extract of more than 5.5 million TY 2021 returns claiming the CDCC that were processed through May 5, 2022, from the IRTF. We subsequently limited our review to returns that received the CDCC. We queried the care provider TINs reported on Forms 2441 to identify obviously invalid TINs, *e.g.*, 999999999. Our analysis identified 3,573 returns with potentially erroneous refundable CDCCs totaling $6,810,139 where the care providers' TIN reported on the Form 2441 by the taxpayer was obviously an invalid TIN. However, we found that [redacted] included in other outcome measures and we reduced our outcome accordingly.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $1,882,862 in erroneous prior year expenses received on 1,290 returns when the taxpayers already claimed the maximum amount of qualified expenses in the prior year (see Recommendation 3).

Methodology Used to Measure the Reported Benefit:

We obtained an extract of more than 5.5 million TY 2021 returns claiming the CDCC that were processed through May 5, 2022, from the IRTF. We subsequently limited our review to returns receiving prior year expenses and the CDCC. We then identified the TY 2020 Form 2441 data by matching the primary SSNs. From the TY 2020 data, we identified returns that had reported the maximum amount of qualified expenses by identifying returns that reported $3,000 or more for one qualifying individual or $6,000 for two or more qualifying individuals. In total, our analysis identified 1,290 returns with potentially erroneous prior year expenses totaling $1,882,862 where the taxpayer was claiming prior year expenses but had already claimed the maximum amount of qualified expenses in a prior year and as such was not eligible to use the prior year expenses.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $56,855,986 in refundable CDCCs erroneously received on [redacted] returns that were not worked due to a lack of resources and should have been rejected (see Recommendations 4 and 5).

Methodology Used to Measure the Reported Benefit:

We identified two scenarios in which the IRS's decision to not reject returns due to legal risks resulted in the IRS paying more than $56.8 million in potentially erroneous refundable CDCCs on [redacted] returns.

- [redacted] receiving $10,714,241 in refundable CDCCs that were adult qualifying persons on Form 2441 who may not be disabled. These returns were identified by an IRS compliance filter after return processing but were not selected to be worked by the compliance filter due to IRS dollar tolerances. This information was provided by IRS management at our request.
- 19,072 returns receiving $46,141,745 in refundable CDCCs that used an [redacted]. We identified 19,081 returns receiving $46,169,834 in refundable CDCCs that used an [redacted] but found that nine returns with refundable CDCCs of $28,089 were included in other outcome measures and we reduced our outcome accordingly. These returns were identified by reviewing the more than 5.5 million TY 2021 returns claiming the CDCC and determining the [redacted] from for the primary, secondary or care provider TINs. We searched for [redacted].

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $2,943,461 in refundable self-only EITC received on [redacted] for which the credit should have been rejected because the taxpayers were not eligible to work in the United States (see Recommendation 5).

Methodology Used to Measure the Reported Benefit:

We obtained an extract of more than 12.7 million TY 2021 returns claiming self-only EITC that were processed through May 5, 2022, from the IRTF. We joined the primary and spouse TINs from these tax returns to the NAP database to obtain the citizenship code for both TINs. We then identified returns where the primary or spouse TINs had a citizenship code that identified the individual as not eligible for work in the United States. From this population, we identified tax returns that were below the IRS's dollar tolerance for its compliance filter. Our analysis identified [redacted] returns receiving $2,943,461 in self-only EITC that were below the IRS dollar tolerance and therefore would not be selected by the IRS's compliance filter.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $780,130 in refundable self-only EITC on 561 returns in which the [redacted]. IRS programming was not designed to select this [redacted] for prerefund self-only EITC audits (see Recommendation 6).

Methodology Used to Measure the Reported Benefit:

We obtained an extract of more than 12.7 million TY 2021 returns claiming self-only EITC that were processed through May 5, 2022, from the IRTF. We joined the primary and spouse TINs from these tax returns to the NAP database to obtain the citizenship code for both TINs. We then identified returns where the primary or spouse TINs had a citizenship code that identified the individual as not eligible for work in the United States. From this population, we kept only returns that met the IRS's dollar tolerance for its compliance filter. We then queried to identify returns with a [redacted], as the IRS's compliance filter is not programmed to identify these tax returns. Our analysis identified 561 returns receiving $780,130 in self-only EITC.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $2,708,298 in refundable self-only EITC claimed on 2,031 returns that met the IRS's criteria for selection but were not selected due to programming not being updated to account for the increased self-only EITC amounts allowed by the ARPA (see Recommendation 7).

Methodology Used to Measure the Reported Benefit:

We obtained an extract of more than 12.7 million TY 2021 returns claiming self-only EITC that were processed through May 5, 2022, from the IRTF. We joined the primary and spouse TINs from these tax returns to the NAP database to obtain the citizenship code for both TINs. We then identified returns where the primary or spouse TINs had a citizenship code that identified the individual as not eligible for work in the United States. From this population, we kept all returns except those with a [redacted] (as this was not part of the IRS's compliance filter criteria). Our analysis identified 2,031 returns receiving $2,708,298 in self-only EITC that were not selected by the IRS's compliance filter but that met the criteria.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $668,656,663 in refundable self-only EITC erroneously received on 774,309 returns that were not identified due to incomplete compliance filter criteria (see Recommendation 8).

Methodology Used to Measure the Reported Benefit:

We obtained an extract of more than 12.7 million TY 2021 returns claiming self-only EITC that were processed through May 5, 2022, from the IRTF. We joined the primary TINs from these self-only EITC tax returns to the NAP database to obtain the Date of Birth for the primary TIN. This was needed to determine whether the TIN met the [redacted] qualifications to be a [redacted]. We then limited our review to returns where the TIN was between the [redacted], as TY 2021 [redacted] must be at least [redacted] to qualify for self-only EITC. Finally, we identified tax returns with a filing status of Single and where the primary TIN had a [redacted] reported to the IRS, indicating they were a [redacted]. Our analysis identified 774,559 returns receiving $668,864,273 in potentially erroneous self-only EITC that were not identified by the IRS because the IRS's compliance filter only identified returns claiming both the EITC and the [redacted]. However, we found that 250 returns with self-only EITCs of $207,610 were included in other outcome measures and we reduced our outcome accordingly.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $203,535 in refundable CDCCs received on 61 returns that exceeded the maximum amount of the CDCC allowed by the law (see Recommendation 9).

Methodology Used to Measure the Reported Benefit:

We obtained an extract of more than 5.5 million TY 2021 returns claiming the CDCC that were processed through May 5, 2022, from the IRTF. We subsequently limited our review to returns receiving the CDCC. We computed the maximum allowable amount each tax return was eligible for based upon the eligibility rules. For example, the maximum amount allowed for TY 2021 was the lesser of qualified expenses or $8,000 for one qualifying person or $16,000 for two or more. Then the lesser of that number or earned income is multiplied by the appropriate percentage based on adjusted gross income. We queried the returns receiving the CDCC for any returns that that exceeded our computed maximum amount. Our analysis identified 61 returns that were allowed more than the maximum amount of the CDCC allowed by law, due to errors made by employees during return processing.

Appendix III

Prior TIGTA Reports on Nonwork Social Security Numbers

Prior Reports	Findings/Sub-Findings	Prior Report Page Number
TIGTA, Report No. 2017-40-042, ***Processes Do Not Maximize the Use of Third-Party Income Documents to Identify Potentially Improper Refundable Credit Claims*** (July 2017).	Processes Still Have Not Been Established to Prevent the Issuance of Earned Income Tax Credits to Individuals with Social Security Numbers That Are Not Valid for Work	12
TIGTA, Report No. 2018-40-032, ***The Internal Revenue Service Is Not in Compliance With Improper Payment Requirements*** (Apr. 2018)	Processes have not been developed to prevent the issuance of the EITC to individuals with SSNs that are not valid for work	14
TIGTA, Report No. 2019-40-039, ***Some Refundable Credits Are Still Not Classified and Reported Correctly as a High Risk for Improper Payment by the Internal Revenue Service*** (May 2019).	A pilot program was initiated to identify and address erroneous EITC claims by individuals issued a "nonwork" SSN	12
TIGTA, Report No. 2020-40-025, ***Improper Payment Reporting Has Improved; However, There Have Been No Significant Reductions to the Billions of Dollars of Improper Payments*** (April 2020).	Revising the Nonwork Social Security Number Case Selection Could Increase Revenue Protected	9

Source: TIGTA's summary of prior audit reports.

Appendix IV

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

May 19, 2023

MEMORANDUM FOR HEATHER M. HILL
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

Digitally signed by Kenneth C. Corbin
Date: 2023.05.19 13:52:47 -04'00'

SUBJECT: Draft Report – American Rescue Plan Act: Assessment of the Expanded Child and Dependent Care and Earned Income Tax Credits (Audit # 202240709)

Thank you for the opportunity to review and provide comments on the subject draft report. As per, Section 9631 of the American Rescue Plan Act (ARPA)[1], the Child and Dependent Care Credit (CDCC) was temporarily expanded to make the credit fully refundable for taxpayers who lived in the United States for more than one-half of the year. Additionally, Section 9631 temporarily increased the amount of the credit for tax year 2021. The ARPA also temporarily expanded the eligibility rules and the amount of Earned Income Tax Credit (EITC) for taxpayers with no qualifying children for tax year 2021.

The Treasury Inspector General for Tax Administration reviewed nearly 12.7 million Tax Year 2021 returns that claimed self-only EITC to assess the IRS's processes for detecting potentially fraudulent or erroneous claims. We note that the review shows that 99.94 percent of the tax year 2021 claims were processed correctly. Similarly, of 5.5 million returns claiming CDCC that were reviewed, 99.99 percent were processed correctly.

The legislative changes affecting the CDCC for tax year 2021 made it one of the largest refundable tax credits available to individuals. To improve our ability to administer the credit, we:

- Revised internal guidance
- Created compliance filters

[1] Pub. L. 117-2

- Issued Servicewide Electronic Research Program Alerts
- Revised Form 2441, *Child and Dependent Care Expenses*
- Elevated a legislative proposal to the Office of Tax Policy
- Added examples to Publication 503, *Child and Dependent Care Expenses*

As noted in the report, we implemented three new business rules. We also modified seven existing CDCC business rules and modified one self-only EITC business rule.

Our responses to your specific recommendations are attached. If you have any questions, please contact me, or a member of your staff may contact James Clifford, Director, Return Integrity and Compliance Services, at 470-639-3505.

Attachment

Recommendations

RECOMMENDATION 1 (E-Mail Alert)
On February 17, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of our concern with three business rules and recommended that IRS management update the business rule programming to identify and evaluate returns for both refundable and nonrefundable CDCC claims.

CORRECTIVE ACTION
Programming updates were implemented on March 20, 2022.

IMPLEMENTATION DATE
Implemented

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

CORRECTIVE ACTION MONITORING PLAN
N/A

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 2
Ensure that programming is updated for Processing Year 2023 to identify taxpayers who reported an obviously invalid care provider TIN on Form 2441.

CORRECTIVE ACTION
Programming updates have been implemented for the 2023 filing season.

IMPLEMENTATION DATE
Implemented

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

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 3
Develop a tool or programming for Error Resolution to ensure that tax returns claiming prior year expenses are systemically identified to determine if the maximum CDCC had been claimed in the prior year, before processing the return and potentially releasing erroneous refunds.

CORRECTIVE ACTION
Verifying prior-year expenses is beyond the scope of math-error authority during return processing. Ascertaining the accuracy of a deduction based on prior-year claims must be done under existing deficiency procedures.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 4
Work with the Department of the Treasury, Office of Tax Policy, to advance legislation to treat a tax return as filed only when it is accepted. This would remove the legal risks associated with rejecting tax returns with conditions that indicate the taxpayer is ineligible for refundable credits claimed on the return.

CORRECTIVE ACTION
We will elevate this issue to the Office of Tax Policy for consideration as a legislative request.

IMPLEMENTATION DATE
February 15, 2024

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

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

RECOMMENDATION 5
If legislation is enacted, develop programming to reject e-filed returns meeting certain conditions, such as those noted in this report.

CORRECTIVE ACTION
This recommendation is dependent on potential future legislative actions by Congress. If legislation is enacted, we will review it and determine the actions to be taken.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A
Recommendations

RECOMMENDATION 6
The Commissioner, Wage and Investment Division, should ensure that the compliance filter criteria for identifying individuals claiming self-only EITC who are not eligible for work is updated to include the [redacted].

CORRECTIVE ACTION
We revised pre-refund filters to include returns claiming [redacted]. It is important to note that this rule is not specific to the American Rescue Plan Act and/or self-only Earned Income Tax Credit (EITC).

IMPLEMENTATION DATE
June 15, 2023

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

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

RECOMMENDATION 7
The Commissioner, Wage and Investment Division, should establish processes to compare subsequent legislative changes with compliance filter programming to identify and make necessary changes, as needed.

CORRECTIVE ACTION
We conduct program assessments annually to ensure rules are accurate and selections are as intended.

IMPLEMENTATION DATE
October 15, 2023

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

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

RECOMMENDATION 8
The Commissioner, Wage and Investment Division, should review the 774,559 returns with self-only EITC from potentially ineligible [redacted] and take actions needed to recover credits that are determined to be erroneous.

CORRECTIVE ACTION
The IRS has a robust audit selection process, which considers many factors to balance our resources across all compliance areas. The returns identified are subject to selection for examination as resources allow.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 9
The Commissioner, Wage and Investment Division, should complete examinations for all 61 tax returns we identified to ensure taxpayers receive the correct CDCC amounts.

CORRECTIVE ACTION
We will review the 61 returns and take appropriate action.

IMPLEMENTATION DATE
February 15, 2024

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

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

Appendix V

Glossary of Terms

Term	Definition
Business Rule	Used to validate information included on e-filed tax returns for acceptance into tax return processing.
Child and Dependent Care Credit	A tax credit for expenses that are paid for the care of a qualifying individual to enable taxpayers to work or to actively look for work.
Data Center Warehouse	A TIGTA repository of IRS data.
Earned Income Tax Credit	A refundable tax credit for low-income to moderate-income workers.
Employee User Portal	The internal IRS portal that allows employees to access IRS data and systems (such as tax administration processing systems and financial information systems) in a secure, authenticated session.
Error Code	These codes validate the accuracy of tax returns during processing.
Error Resolution System	A real-time computer system used to identify and address paper and e-filed tax returns with an error condition.
Form 1098-T	Form 1098-T, *Tuition Statement*, is used by eligible educational institutions to report amounts they received for qualified tuition and related expense payments from each enrolled student.
Individual Return Transaction File	A database maintained by the IRS that contains information on the individual tax returns it receives.
Individual Tax Identification Number	A nine-digit number assigned by the IRS to taxpayers who are required to have a TIN for Federal tax purposes but are not eligible to obtain an SSN.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
Modernized Tax Return Database	The official repository of all electronic returns processed through the Modernized e-File system.
National Account Profile	IRS database that is a compilation of selected entity data from various IRS Master Files that also includes data from the Social Security Administration.
Processing Year	The calendar year in which the tax return or document is processed by the IRS.
Qualified Former Foster Youth	A qualified former foster youth is defined as an individual who on or after age 14 was in foster care, under a plan administered under the Social Security Act, and consents to disclosure of such information to the IRS.
Qualified Homeless Youth	Qualified homeless youth is defined as an individual who certifies that they are either an unaccompanied youth who is homeless, or is unaccompanied, at risk of homelessness, and self-supporting.

Term	Definition
[redacted]	[redacted]
Taxpayer Identification Number	A nine-digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, the TIN is either an Employer Identification Number, an SSN, or an ITIN.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

Appendix VI

Abbreviations

ARPA	American Rescue Plan Act of 2021
CDCC	Child and Dependent Care Credit
E-File(d)	Electronically File(d)
EITC	Earned Income Tax Credit
IRS	Internal Revenue Service
IRTF	Individual Return Transaction File
ITIN	Individual Taxpayer Identification Number
NAP	National Account Profile
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number
TY	Tax Year

To report fraud, waste, or abuse,
contact our hotline on the web at www.tigta.gov or via e-mail at
oi.govreports@tigta.treas.gov.

To make suggestions to improve IRS policies, processes, or systems affecting taxpayers, contact us at www.tigta.gov/form/suggestions.

Information you provide is confidential, and you may remain anonymous.