TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Results of the 2018 Filing Season

December 19, 2018

Reference Number: 2019-40-013

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

To report fraud, waste, or abuse, call our toll-free hotline at:

1-800-366-4484

By Web:

[***www.treasury.gov/tigta/***](http://www.treasury.gov/tigta/)

Or Write:

Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, D.C. 20044-0589

Information you provide is confidential and you may remain anonymous.

RESULTS OF THE 2018 FILING SEASON

Highlights

Final Report issued on December 19, 2018

Highlights of Reference Number: 2019-40-013 to the Commissioner of Internal Revenue.

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 laws or filing procedures. As of May 4, 2018, the IRS received 140.9 million tax returns (with 89.2 percent electronically filed) and issued more than 101.3 million refunds totaling almost $282 billion.

WHY TIGTA DID THE AUDIT

The objective of the review was to evaluate whether the IRS timely and accurately processed individual paper and electronically filed tax returns during the 2018 Filing Season.

WHAT TIGTA FOUND

The IRS began accepting and processing individual tax returns on January 29, 2018. However, on February 9, 2018, subsequent to the start of the filing season, Congress enacted the Bipartisan Budget Act of 2018 that retroactively extended a number of individual tax provisions for Tax Year 2017 and modified disaster relief provisions.

As of May 3, 2018, the IRS processed 4.9 million tax returns that reported nearly $27 billion in Premium Tax Credits either received in advance or claimed at the time of filing. A total of $3.7 billion received in Advance Premium Tax Credits was in excess of the amount of Premium Tax Credits that taxpayers were entitled to, with a total of $1 billion not required to be repaid.

Although the IRS informs taxpayers of the requirement to provide the educational institution Employer Identification Number (EIN), the IRS has yet to implement processes to identify and disallow American Opportunity Tax Credit claims at the time tax returns are filed for which the required EIN is not provided. TIGTA identified 234,053 tax returns that were filed without an educational institution EIN for which the taxpayers received approximately $209 million in the refundable American Opportunity Tax Credit.

The IRS developed processes to implement the key tax provisions included in the Disaster Relief Act and the Tax Cuts and Jobs Act. However, not all taxpayers received the benefit intended from the disaster relief provision. TIGTA identified 1,128 tax returns claiming the Earned Income Tax Credit using Tax Year 2016 earned income that the IRS incorrectly adjusted based on the taxpayers' Tax Year 2017 earned income. The IRS agreed that these tax returns were worked incorrectly.

TIGTA analyzed approximately 3.8 million confirmed identity theft victim tax accounts and found that 37,555 (1 percent) were Individual Taxpayer Identification Number (ITIN) accounts. The IRS currently does not issue Identity Protection Personal Identification Numbers (IP PINs) to ITIN account holders; therefore, the 37,555 tax accounts will not receive the same identity theft protection measures as Social Security Number holders.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS ensure that the review of the 1,128 accounts that did not receive the correct amount of the Earned Income Tax Credit is completed. Also, the IRS should revise processes for issuing an IP PIN so that an IP PIN is automatically issued to ITIN holders who are confirmed victims of identity theft and who are not working under someone else's Social Security Number and expand the IP PIN opt-in program to include ITIN holders who are not automatically issued an IP PIN.

The IRS agreed with two recommendations and partially agreed with one recommendation to automatically assign IP PINs to ITIN holders who are confirmed victims of identity theft. IRS management does not believe automatic assignment of IP PINs is prudent at this time. However, it will modify the IP PIN opt-in program to allow eligible ITIN holders to participate.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

December 19, 2018

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Results of the 2018 Filing Season
(Audit # 201840004)

This report presents the results of our review to evaluate whether the Internal Revenue Service timely and accurately processed individual paper and electronically filed tax returns during the 2018 Filing Season. This audit was included in our Fiscal Year 2018 Annual Audit Plan and addresses the major management challenge of Implementing Tax Law Changes.

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

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).

Table of Contents

Abbreviations

ACA	Affordable Care Act
ACTC	Additional Child Tax Credit
AGI	Adjusted Gross Income
AOTC	American Opportunity Tax Credit
APTC	Advance Premium Tax Credit
CTC	Child Tax Credit
e-file(d); e-filing	Electronically File(d); Electronic Filing
EIN	Employer Identification Number
EITC	Earned Income Tax Credit
IP PIN	Identity Protection Personal Identification Number
IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
PATH Act	Protecting Americans From Tax Hikes Act of 2015
PTC	Premium Tax Credit
SRP	Shared Responsibility Payment
SSN	Social Security Number
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number

Background

The annual tax return filing season[1] is a critical time for the Internal Revenue Service (IRS) as this is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. As of May 4, 2018, the IRS received 140.9 million individual income tax returns. In addition, the IRS provided assistance to millions of taxpayers via the telephone, website, social media, and face-to-face.

One of the continuing challenges the IRS faces each year in processing tax returns is the implementation of new tax law changes as well as changes resulting from expired tax provisions. Before the filing season begins, the IRS must identify the tax law and administrative changes affecting the upcoming filing season. Once identified, the IRS must revise the various tax forms, instructions, and publications. It also must reprogram its computer systems to ensure that tax returns are accurately processed based on changes in the tax law. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, or result in incorrect taxpayer notices. The extensive actions the IRS must undertake to implement tax legislation is particularly challenging when tax law changes are enacted close to or after the start of the annual filing season.

Tax law changes affecting the 2018 Filing Season

Disaster Tax Relief and Airport and Airway Extension Act of 2017[2] (hereafter referred to as the Disaster Relief Act) – Enacted September 29, 2017, the provisions in this Act are specific to individuals living in declared areas affected by the Calendar Year 2017 hurricanes. This legislation includes the following changes for applicable individuals:

- *Charitable Contributions* – Taxpayers making qualified contributions for disaster relief will generally not be subject to the percentage of Adjusted Gross Income (AGI) limitations and will not be subject to the limit on overall itemized deductions.
- *Personal Casualty Losses* – Taxpayers incurring personal casualty losses in one of the qualified hurricane disaster areas are allowed to calculate the loss differently and can alternatively take the loss as part of the standard deduction. The taxpayers can also elect to take that loss on their Tax Year 2016 tax return.
- *Earned Income for the Earned Income Tax Credit (EITC) and Additional Child Tax Credit (ACTC)* – Taxpayers who were displaced from their homes in the affected hurricane disaster areas can elect to calculate the ACTC and the EITC based upon their

[1] See Appendix V for a glossary of terms.
[2] Pub L. No. 115-63, 131 Stat. 1168 (codified in scattered sections of the I.R.C. and Title 49 of the U.S. Code).

Tax Year 2016 earned income if it was greater than the earned income for Tax Year 2017.

- *Qualified Retirement Plan Withdrawals* – Retirement plan participants can access their retirement funds to recover from Hurricanes Harvey, Irma, and Maria. This provision waives the 10 percent additional tax on certain early distributions, allows recipients to include qualified hurricane distributions in income over a three-year period, and expands the availability of plan loans and extends the normal repayment period.
- *Employee Retention Credit* – An eligible employer who continued to pay or incur wages after the employer's business became inoperable because of damage from the three major hurricanes (Harvey, Irma, or Maria) may be able to claim a credit equal to 40 percent of up to $6,000 of qualified wages paid to or incurred for each eligible employee.

Tax Cuts and Jobs Act of 2017[3] **–** Enacted December 22, 2017, the majority of the changes enacted in the Tax Cuts and Jobs Act are effective beginning in Tax Year 2018. However, the Act expanded two of the disaster relief provisions in the Disaster Relief Act to all individuals affected by a Presidentially declared disaster during Calendar Year 2016. For example, rules were modified for claiming a personal casualty loss and for taking withdrawals from retirement plans. The most notable change affecting Tax Year 2017 individual returns is a temporary reduction from 10 percent to 7.5 percent in the minimum percentage for which medical expenses must exceed AGI to be eligible to claim a deduction. Due to the extensive nature of the law, we have separate audits ongoing and planned that focus on the IRS's implementation of this legislation.[4]

Bipartisan Budget Act of 2018[5] – Enacted February 9, 2018, this Act includes tax law provisions that expired as of December 31, 2016, but were retroactively extended through December 31, 2017. The key provisions that will affect individual taxpayers include:

- *Exclusion of Discharged Mortgage Debt from Gross Income* – Applies to discharges of indebtedness occurring after December 31, 2016, and before January 1, 2018.
- *Allowance of a Mortgage Interest Deduction for amounts paid as Mortgage Insurance Premiums* – Applies to amounts paid or accrued after December 31, 2016, through December 31, 2017.
- *Qualified Tuition and Fees Deduction* – An "above-the-line" deduction of up to $4,000 of qualified tuition and related expenses. Applies to the taxable year beginning after December 31, 2016, and ending on December 31, 2017.

[3] Pub L. 115-97, 131 Stat. 2054.
[4] Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2018-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts* (Apr. 2018) and TIGTA, Audit No. 201840434, *Implementation of Tax Provisions of the Bipartisan Budget Act and Tax Cuts and Jobs Act (Continued Assessment).*
[5] Pub L. 115-123, 132 Stat. 64.

- *Nonbusiness Energy Property Credit* – A credit of 10 percent of the cost of homeowners' energy-efficient property improvements or the cost of residential energy property purchases, subject to limits based on the type of property and a lifetime limit of $500. Applies to property placed in service after December 31, 2016, and expires December 31, 2017.

- *Residential Energy Efficient Property Credit* – A credit of 30 percent of the cost of residential solar, fuel cell, small wind, and geothermal heat pump property placed in service after December 31, 2016, through December 31, 2021. The amount of the credit phases out in Calendar Years 2020 and 2021. The provision expires on December 31, 2021.

We have separate audits assessing the IRS's efforts to implement provisions included in the Bipartisan Budget Act.[6]

Consolidated Appropriations Act of 2016[7] – Enacted on December 18, 2015, this Act contains the Protecting Americans From Tax Hikes Act of 2015 (PATH Act), which extended numerous tax provisions that expired at the end of Tax Year 2014. Many of the provisions were permanently extended, while others were extended for either two or five years. The PATH Act also contains a number of provisions referred to as program integrity provisions intended to reduce fraudulent and improper EITC, Child Tax Credit (CTC), ACTC, and American Opportunity Tax Credit (AOTC) payments. The majority of the program integrity provisions were effective January 1, 2016, and affected the processing of Tax Year 2016 returns.

The Patient Protection and Affordable Care Act (ACA)[8] – Enacted March 23, 2010, its provisions provide incentives and tax breaks to individuals and small businesses to offset health care expenses. It also imposes penalties, administered through the tax code, for individuals and businesses that do not obtain health care coverage for themselves or their employees. For the 2018 Filing Season, the IRS will continue its efforts to verify claims for the Premium Tax Credit (PTC). Taxpayers who purchase insurance through an Exchange are required to file a tax return and attach Form 8962, *Premium Tax Credit (PTC)*, to claim the PTC and reconcile any Advance PTC (APTC) payments that were made to an insurer on their behalf.

The ACA also requires individuals to report on their compliance to maintain minimum essential health insurance coverage. Individuals who do not maintain minimum essential

---

[6] TIGTA, Ref. No. 2018-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts* (Apr. 2018) and TIGTA, Audit No. 201840434, *Implementation of Tax Provisions of the Bipartisan Budget Act and Tax Cuts and Jobs Act (Continued Assessment).*
[7] Pub. L. No. 114-113, 129 Stat. 2242 (2015).
[8] Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

coverage or qualify for an exemption from the requirement must make a Shared Responsibility Payment (SRP).

The 2018 Filing Season results are presented as of several dates between February 15, 2018, and May 7, 2018, depending on when the data were available. This review was performed with information obtained from the Wage and Investment Division Headquarters in Atlanta, Georgia; the Wage and Investment Division Submission Processing function offices in Cincinnati, Ohio; and the Information Technology organization Headquarters in Lanham, Maryland. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

Processing Tax Returns

In preparation for the 2018 Filing Season, the IRS made significant changes to its processes and procedures to address legislative requirements. The IRS processed individual income tax returns at four tax processing centers during the 2018 Filing Season.[9] The IRS began accepting and processing individual tax returns on January 29, 2018. However, on February 9, 2018, subsequent to the start of the filing season, Congress enacted the Bipartisan Budget Act of 2018, which retroactively extended a number of individual tax provisions for Tax Year 2017 and modified disaster relief provisions. This legislation includes 51 provisions, 31 (61 percent) relate to deductions and credits that can be claimed on a Tax Year 2017 tax return. These provisions required the IRS to update publications, forms, instructions, and computer programing to allow taxpayers to take advantage of these provisions. Taxpayers who already filed tax returns using the previously expired tax law would be required to amend their returns to take advantage of these extended provisions.

Additionally, on the last day of the filing season (April 17, 2018), the IRS experienced a storage outage due to a firmware bug that prevented electronic filing (e-filing) of tax returns and submission of online payments. The IRS addressed the outage, and e-filing resumed late on April 17, 2018. In response, the IRS extended the due date for filing individual income tax returns one day to April 18, 2018. We conducted a separate audit to evaluate the April 17, 2018, system outage and issued our report in September 2018.[10]

As of May 4, 2018, the IRS received 140.9 million individual income tax returns with 89 percent being e-filed. Figure 1 presents comparative filing season statistics as of May 4, 2018.

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

[10] TIGTA, Ref. No. 2018-20-065, *Review of the System Failure That Led to the Tax Day Outage* (Sept. 2018).

Figure 1: Comparative Filing Season Statistics (as of May 4, 2018)

Cumulative Filing Season Data	2017 Actual	2018 Actual	% Change
Individual Income Tax Returns			
Total Returns Received (000s)	138,945	140,895	1.40%
Paper Returns Received (000s)	15,706	15,258	-2.85%
E-Filed Returns Accepted (000s)	123,239	125,637	1.95%
Practitioner Accepted (000s)	71,154	71,788	0.89%
Home Computer (000s)	52,085	53,849	3.39%
Free File (000s) *(also in the Home Computer total)*	2,448	2,563	4.70%
Fillable Forms (000s) *(also in the Home Computer total)*	289	282	-2.42%
Percentage of Returns E-Filed	88.7%	89.2%	0.56%
Refunds			
Total Number Issued (000s)	101,641	101,372	-0.26%
Total Dollars (in millions)	$281,661	$281,514	-0.05%
Average Dollars	$2,771	$2,777	0.22%
Total Number of Direct Deposits (000s)	84,424	84,632	0.25%
Total Direct Deposit Dollars (in millions)	$248,195	$248,627	0.17%

Source: Multiple 2018 Filing Season reports. Totals and percentages shown are rounded. The 2017 Filing Season figures are through May 5, 2017, and the 2018 Filing Season figures are through May 4, 2018.

Administration of Affordable Care Act Provisions

As of May 3, 2018, the IRS processed 4.9 million tax returns that reported nearly $27 billion in PTCs that were either received in advance or claimed at the time of filing. A total of $3.7 billion in APTCs claimed was in excess of the amount of PTC that taxpayers were entitled to, with a total of $1 billion not required to be repaid.[11] It should be noted that the Exchanges have sole responsibility to determine eligibility to purchase insurance and the amount of the APTC an

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

individual will receive. Figure 2 provides a comparison of PTC statistics for Processing Years 2016 through 2018.

Figure 2: PTC Statistics
Processing Years 2016 Through 2018

	Processing Year 2016 as of May 5, 2016	Processing Year 2017 as of May 4, 2017	Processing Year 2018 as of May 3, 2018
Total Tax Returns With the PTC	**4.7 million**	**5.1 million**	**4.9 million**
Total PTC Amount (includes the APTC and the PTC)	$18.9 billion	$23.9 billion	$27.0 billion
Total APTC Amount	*$17.7 billion*	*$22.5 billion*	*$25.6 billion*
Total PTC Claimed at Filing in Excess of the APTC	*$1.2 billion*	*$1.4 billion*	*$1.4 billion*
Tax Returns in Which the PTC Equals the APTC Received			
Tax Returns	138,252	155,133	201,582
Total PTC Amount	$574.7 million	$821.9 million	$1.7 billion
Tax Returns With Additional PTC – (taxpayer is entitled to more PTC than what was received in the APTC)			
Total Tax Returns	1.9 million	2.1 million	2.0 million
Total PTC Amount (includes APTC and PTC)	$7.9 billion	$9.7 billion	$11.8 billion
Total APTC Amount	*$6.8 billion*	*$8.3 billion*	*$10.4 billion*
Total PTC Claimed at Filing in Excess of APTC	*$1.2 billion*	*$1.4 billion*	*$1.4 billion*

Tax Returns With Excess APTC Payments – (taxpayer receives more APTC than PTC entitled to and has to repay)			
Total Tax Returns	2.6 million	2.8 million	2.7 million
Total PTC Amount	$6.1 billion	$7.5 billion	$9.8 billion
Total APTC Amount	$10.3 billion	$13.4 billion	$13.5 billion
Total APTC Reported in Excess of PTC	$4.2 billion	$5.8 billion	$3.7 billion
Total APTC Above the Repayment Limit (not repaid)	*$2.2 billion*	*$3.5 billion*	*$1.0 billion*
Total APTC Below the Repayment Limit (repaid)	*$2.0 billion*	*$2.3 billion*	*$2.7 billion*

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of Individual Master File posted tax return information as of May 5, 2016 (Cycle 18), May 4, 2017 (Cycle 18), and May 3, 2018 (Cycle 18). Totals may not add due to rounding.

Minimum essential coverage and SRP requirements

As of May 3, 2018, the IRS received approximately 108.9 million tax returns reporting that all members of the taxpayer's family maintained minimum essential coverage as required by the ACA. Approximately 8.4 million taxpayers filed a return with a Form 8965, *Health Coverage Exemptions*, attached indicating that at least one individual on the tax return was exempt from the minimum essential coverage requirement. Additionally, approximately 3.7 million tax returns included a self-reported SRP totaling more than $2.8 billion for not maintaining required coverage. In comparison, for Processing Year 2017, approximately 4.1 million taxpayers self-reported SRPs totaling $2.9 billion for not maintaining required coverage as of May 4, 2017.

Processes to identify noncompliant filers and assess SRP are established

For Processing Year 2018, the IRS is not accepting e-filed returns on which taxpayers do not check the coverage box indicating they had full year coverage, do not attach a Form 8965, and do not report a SRP, *i.e.*, silent returns. When e-filed tax returns are rejected, the IRS provides a message indicating the taxpayer must address the household's health care status. As of May 1, 2018, 170,362 e-filed tax returns were rejected for not addressing the health care coverage status. Paper-filed silent returns are identified for manual review. The IRS will research the return for an item that indicates the taxpayer or members of the taxpayer's family had health insurance coverage, such as Form 8885, *Health Coverage Tax Credit*, or Form W-2, *Wage and Tax Statement*, Box 12 with Code DD and an amount.[12] If an indication of coverage is not found, the IRS will suspend processing and send a letter asking the taxpayer to address the household's health care coverage status. If no response is received, the IRS will calculate and

[12] Code DD is used to report the cost of employer-sponsored health coverage in the Form W-2 Box 12.

assess the SRP. As of May 2, 2018, the IRS had identified more than 592,000 paper-filed tax returns for additional review.

The Tax Cuts and Jobs Act, enacted in December 2017, reduced the amount of the SRP to zero for individuals who do not maintain minimum essential coverage beginning in Tax Year 2019.

APTC recipient reconciliation analysis – significant noncompliance continues to exist with adherence to the requirement to file a tax return

The ACA requires taxpayers who purchase insurance through the Exchange to file a tax return and attach Form 8962 to claim the PTC and reconcile any APTC payments that were made to an insurer on their behalf. However, some APTC recipients continue to not file a tax return as required. For example, the IRS reports that 812,000 individuals who received approximately $2.7 billion in the APTC during Calendar Year 2016 did not file a Tax Year 2016 tax return as required. This represents a 168 percent increase over the number of individuals who received the APTC in Calendar Year 2014 but did not file the required tax return. Figure 3 shows the number of individuals who received the APTC during Calendar Years 2014 through 2016, but did not file a tax return for the corresponding tax years.[13]

Figure 3: APTC Nonfilers for Tax Years 2014 Through 2016

Tax Year	Nonfilers	APTC Dollars Received and Not Reconciled
2014	303,000	$861,380,000
2015	764,000	$2,136,000,000
2016	812,000	$2,683,000,000

Source: IRS analysis of Forms 1095-A, Health Insurance Marketplace Statement, for Tax Years 2014 through 2016.

Repeat APTC nonfilers are identified in Tax Years 2014 through 2016

We reviewed a list of the APTC nonfilers that the IRS identified for Tax Years 2014 through 2016 to see if the same individuals are included each year. For example, the taxpayer did not file his or her Tax Year 2014 tax return, nor his or her Tax Years 2015 or 2016 tax return, by the end of the calendar year in which the tax returns were due, yet continued to receive the APTC in each of these years. We identified 37,995 APTC recipients who were able to receive the APTC for

[13] For this analysis, the APTC recipient is considered an APTC nonfiler if a tax return is not filed by the end of the calendar year following the calendar year they received the APTC. For example, for Tax Year 2016, the APTC nonfiler status was determined as of the end of Processing Year 2017.

each of these three tax years even though they did not file a tax return the previous year as required.[14] Overall, these 37,995 individuals received approximately $459 million in the APTCs that were not reconciled on a timely filed tax return as required. It should be noted that 10,812 of these individuals late-filed a return for at least one of the tax years. Because the return was filed late, the individual did not reconcile the APTC prior to receiving the APTC in the subsequent year as required.

In March 2017,[15] we reported that the ACA requires individuals to file a tax return and reconcile the APTC. The IRS developed an external response code (Code 007 – required return not filed reconciling the APTC received for prior calendar year) that it sends to the Exchanges when the Exchange requests tax return information for an individual during an open enrollment period. The Exchanges are required to verify an individual's eligibility for the APTC by attempting to verify anticipated income and other factors. The Exchanges obtain tax information from the IRS for this purpose. For example, when an Exchange requested tax information for the 2016 insurance renewal period for an individual who received the APTC in Calendar Year 2014 but had not yet filed his or her Tax Year 2014 tax return, the IRS would return a Code 007 to indicate that the individual has not yet filed a tax return. The Exchanges were to use this information when determining if an individual remains eligible to receive the APTC in Calendar Year 2016.

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

As we previously reported, the IRS has developed processes to implement certain integrity provisions of the PATH Act. These include the holding of refunds for taxpayers claiming the EITC and the ACTC until February 15 as well as identifying tax returns with CTC, ACTC, and AOTC claims filed by individuals with an inactive Individual Taxpayer Identification Number (ITIN). The following summarizes our continued review of these processes.

Returns with refundable credit claims held as required

Our analysis identified 9.5 million returns with an EITC or ACTC claim processed as of February 15, 2018, with refunds totaling approximately $47.5 billion were held as required.[16] These refunds included the EITC totaling $26.7 billion and the ACTC totaling $9.5 billion. In comparison, last year, as of March 2, 2017, 10.3 million tax returns with refunds totaling

[14] Our analysis compared the three years so the repeat nonfiler status is only attributable to Tax Years 2015 and 2016.
[15] TIGTA, Ref. No. 2017-43-022, *Affordable Care Act: Verification of Premium Tax Credit Claims During the 2016 Filing Season* p. 22 (Mar. 2017).
[16] The PATH Act moved the filing date for Forms W-2 and Forms 1099 to January 31 and requires the IRS to hold refund-based claims for the EITC or the ACTC until February 15. These provisions were enacted to enable the IRS to validate the income used to support EITC and ACTC claims before refunds are issued.

$51.2 billion were held until February 15, 2017. These refunds included the EITC totaling $28.4 billion and the ACTC totaling $10.3 billion.

A prior TIGTA review[17] identified that although the IRS established processes to hold all refunds that included the EITC or the ACTC until February 15, 2017, processes do not ensure that all EITC and ACTC claims with unsupported wage income are reviewed before refunds are paid. In addition, TIGTA found that the IRS was not using Forms 1099-MISC, *Miscellaneous Income*, that report nonemployee compensation to validate reported income. Since the issuance of the prior report, IRS management has stated that for Processing Year 2018, they are using select information from Form 1099-MISC to detect potential identity theft and verify reported income.

Of the 9.5 million returns for which the IRS held refunds until February 15, approximately 9.3 million (98 percent) were not identified for additional review prior to release of the refund. We plan to conduct separate audits to evaluate the IRS's use of Forms W-2 and Forms 1099-MISC to verify the income reported on EITC and ACTC claims prior to the issuance of the refunds.

Employer/payer compliance with Forms W-2 and Forms 1099-MISC filing requirements

In our prior report, we found that the IRS did not always receive employer-filed Forms W-2 prior to releasing EITC and ACTC refunds on February 15, 2017.[18] For the 2018 Filing Season, as of February 16, 2018, the IRS received 221 million Forms W-2 filed by 4.3 million employers. This compares to 215 million Forms W-2 filed by 4 million employers as of February 16, 2017. As of May 3, 2018, our analysis of Forms W-2 found that the IRS received 236 million Forms W-2 filed by 5.2 million employers. Figure 4 shows the number of original Forms W-2 and the number of employers submitting those forms for the 2017 and 2018 Filing Seasons. Figure 5 shows the number of tax returns reporting wages and claiming a refund that had at least one Form W-2 available at the time of filing during Filing Seasons 2017 and 2018.

[17] TIGTA, Ref. No. 2018-40-015, *Employer Noncompliance With Wage Reporting Requirements Significantly Reduces the Ability to Verify Refundable Tax Credit Claims Before Refunds Are Paid* p. 5 (Feb. 2018).
[18] TIGTA, Ref. No. 2018-40-015, *Employer Noncompliance With Wage Reporting Requirements Significantly Reduces the Ability to Verify Refundable Tax Credit Claims Before Refunds Are Paid* p. 5 (Feb. 2018).

Figure 4: Comparison of Forms W-2 Filed by Employers in Filing Seasons 2017 and 2018

Receipt Date	Filing Season 2017				Filing Season 2018			
	Forms W-2	Forms W-2 Percentage	Employers That Submitted	Employer Percentage	Forms W-2	Forms W-2 Percentage	Employers That Submitted	Employer Percentage
As of Feb. 16	214,658,112	91%	4,039,135	73%	221,144,862	94%	4,251,018	81%
After Feb. 16	20,656,789	9%	1,520,935	27%	14,940,046	6%	975,895	19%
Total May 3[19]	235,314,901	100%	5,560,070	100%	236,084,908	100%	5,226,913	100%

Source: TIGTA analysis of the IRS's Information Returns Master File.

Figure 5: Tax Returns Reporting Wages and Claiming a Refund With at Least One Employer-Filed Form W-2 Available at the Time of Filing in Filing Seasons 2017 and 2018

Received Date of Tax Return	Filing Season 2017			Filing Season 2018		
	Number of Tax Returns	Form W-2 Available	Percentage	Number of Tax Returns	Form W-2 Available	Percentage
Jan. 22 – Feb. 1[20]	11,249,701	5,501,889	49%	9,464,356	4,255,857	45%
Feb. 2 – Feb. 15[21]	19,270,837	16,152,107	84%	20,349,781	16,217,283	80%
As of May 03, 2018[22]	91,298,574	78,995,532	87%	91,527,083	79,234,858	87%

Source: TIGTA analysis of the IRS's Individual Return Transaction File and Information Returns Master File.

Our analysis of Tax Year 2017 tax returns filed between January 22, 2018, and February 15, 2018, with wages and a tax refund identified 20.5 million tax returns that had at least one Form W-2 available at the time the IRS processed the tax return. Of the 20.5 million, approximately 400,000 (2 percent) were identified for review before February 16, 2018. The remaining 20.1 million (98 percent) claiming $73 billion in refunds were not reviewed. We

[19] The 2018 Filing Season is as of May 3, 2018, and the 2017 Filing Season is as of May 4, 2017.
[20] The 2017 Filing Season as of January 23, 2017, through February 2, 2017.
[21] The 2017 Filing Season as of February 3, 2017, through February 16, 2017.
[22] The 2017 Filing Season as of date is May 4, 2017.

reduced this population to quantify the more than 10 million of the tax returns that claimed either the EITC or the ACTC. Figure 6 shows the number of Tax Year 2017 refund tax returns claiming the EITC and/or the ACTC with wages and at least one Form W-2 available for IRS review, and whether those returns were identified for review before February 16, 2018.

Figure 6: Tax Year 2017 Tax Returns With an Employer-Filed Form W-2 Available: Analysis of Whether the Returns Were Reviewed Prior to Refunding

Reviewed or Not Reviewed Before February 16	Tax Returns Filed	Percentage of Tax Returns	Refunds Claimed	ACTC Claimed	EITC Claimed
Not Reviewed	9,665,602	97%	$49,182,247,393	$9,365,284,524	$26,369,367,015
Reviewed	346,652	3%	$2,063,413,082	$398,732,942	$1,196,115,834
Total	**10,012,254**	**100%**	**$51,245,660,475**	**$9,764,017,466**	**$27,565,482,849**

Source: *TIGTA analysis of the IRS's Individual Return Transaction File and Information Returns Master File.*

As noted in the IRS's response to our February 2018 report, IRS management agrees that employer noncompliance with the Form W-2 filing requirements limits its ability to systemically verify income reported on EITC and ACTC claims.[23] As a result, the IRS uses other detection methods in addition to the review of Form W-2 information to identify potentially fraudulent returns. According to IRS management, these methods allow the IRS to identify returns with suspicious characteristics regardless of whether the IRS has received Form W-2 information from the employer. IRS management stated that the IRS holds the refunds on the identified returns until it receives the employer Form W-2 information. IRS management also stated that the tax returns we identified as not being reviewed would have passed the systemic checks designed to identify suspicious characteristics. We are conducting a separate review to evaluate the IRS's efforts to identify and review EITC and ACTC claims with unsupported income. We plan to issue our report later this fiscal year.[24]

IRS receipt of employer-filed Forms 1099-MISC

We continued to monitor the IRS's receipt of employer-filed Forms 1099-MISC throughout the filing season. As of February 16, 2018, the IRS received approximately 4 million Forms 1099-MISC filed by 527,807 employers. This compares to 2.6 million Forms 1099-MISC filed by 366,448 employers as of February 16, 2017. As of May 3, 2018, our analysis of

[23] TIGTA, Ref. No. 2018-40-015, *Employer Noncompliance With Wage Reporting Requirements Significantly Reduces the Ability to Verify Refundable Tax Credit Claims Before Refunds Are Paid* pp. 6 - 7 (Feb. 2018).
[24] TIGTA, Audit No. 201940006, *Compliance With the Improper Payment Reporting Requirements for Fiscal Year 2018.*

Forms 1099-MISC found that the IRS received 37.8 million Forms 1099-MISC filed by 3.5 million employers.

Figure 7 shows the number of original Forms 1099-MISC reporting nonemployee compensation and the number of employers submitting those forms for the 2017 and 2018 Filing Seasons. Figure 8 shows the number of refund tax returns with a Schedule C, *Profit or Loss From Business*, or Schedule F, *Profit or Loss From Farming*, claiming either the EITC or the ACTC that had at least one Form 1099-MISC reporting nonemployee compensation available at the time of filing during Filing Seasons 2017 and 2018.

Figure 7: Comparison of Forms 1099-MISC Reporting Nonemployee Compensation Filed by Employers in Filing Seasons 2017 and 2018

Received Date of Forms 1099	Filing Season 2017				Filing Season 2018			
	Forms 1099	Percentage Forms 1099	Employers That Submitted	Employer Percentage	Forms 1099	Percentage Forms 1099	Employers That Submitted	Employer Percentage
As of Feb. 16	2,590,407	9%	366,448	15%	3,993,291	11%	527,807	15%
After Feb.16	24,942,788	91%	2,071,801	85%	33,781,740	89%	2,988,669	85%
Total as of May 03	27,533,195	100%	2,438,249	100%	37,775,031	100%	3,516,476	100%

Source: TIGTA analysis of the IRS's Information Returns Master File.

Figure 8: Refund Tax Returns With a Schedule C or F For Which the IRS Had at Least One Form 1099-MISC Reporting Nonemployee Compensation Available at the Time the Return Was Filed – Filing Seasons 2017 and 2018

Received Date of Tax Return	Filing Season 2017			Filing Season 2018		
	Number of Tax Returns	Form 1099 Available	Percentage of Returns With Form 1099 at Filing	Number of Tax Returns	Form 1099 Available	Percentage of Returns With Form 1099 at Filing
Jan. 22 – Feb. 1[25]	664,901	12,412	2%	468,821	13,624	3%
Feb. 2 – Feb. 15[26]	1,125,781	23,867	2%	1,194,482	40,352	3%
As of May 03, 2018[27]	5,288,698	486,584	9%	5,258,475	648,067	12%

Source: TIGTA analysis of the IRS's Individual Return Transaction File and Information Returns Master File.

Our analysis of Tax Year 2017 tax returns that reported a Schedule C or a Schedule F and a tax refund, identified 990,444 tax returns that did not have at least one Form 1099-MISC available as of February 15, 2018. Of the 990,444, only 38,457 (4 percent) were identified for review before February 15, 2018. The remaining 951,987 (96 percent) with $4.8 billion in refunds claimed were not reviewed before February 15, 2018. We reduced this population to quantify the number of the tax returns that claimed either the EITC or the ACTC. Figure 9 shows the number of refund tax returns claiming the EITC and/or the ACTC with a Schedule C or Schedule F and at least one Form 1099-MISC available for IRS review, and whether those returns were identified for review before February 16, 2018.

[25] 2017 Filing Season as of January 23, 2017 through February 2, 2017.
[26] 2017 Filing Season as of February 3, 2017 through February 16, 2017.
[27] 2017 Filing Season as of May 4, 2017.

Figure 9: Tax Year 2017 Returns With a Schedule C or F and at Least One Form 1099-MISC Available: Analysis of Whether the Returns Were Reviewed Prior to Refunding

Reviewed or Not Reviewed Before February 16	Tax Returns Filed	Percentage of Tax Returns	Refunds Claimed	ACTC Claimed	EITC Claimed
Not Reviewed	52,545	97%	$247,188,802	$63,058,209	$185,982,929
Reviewed	1,431	3%	$8,070,965	$1,733,525	$5,643,200
Total	53,976	100%	$255,259,767	$64,791,734	$191,626,129

Source: TIGTA analysis of the IRS's Individual Return Transaction File and Information Returns Master File.

Erroneous AOTC claims continue to be paid to taxpayers who do not provide the educational institution Employer Identification Number (EIN) as required

The PATH Act modified the AOTC to require individuals claiming the credit to provide the EIN of the educational institution. In response, the IRS revised the wording on Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits)*, and related instructions to inform taxpayers of the requirement to provide the EIN when claiming the AOTC. Although the IRS informs taxpayers of the EIN requirement, it has yet to implement processes to identify and disallow AOTC claims at the time tax returns are filed for which the required EIN is not provided. Our analysis of more than 7.2 million tax returns claiming approximately $6.4 billion in the refundable AOTC identified 234,053 tax returns that were filed without an educational institution EIN for which taxpayers received approximately $209 million in the refundable AOTC.

Our analysis of tax returns processed during the 2017 Filing Season as of May 4, 2017,[28] identified more than 1.2 million AOTC claims totaling $1.9 billion ($800 million nonrefundable and $1.1 billion refundable) for which the educational institution EIN was not provided by the taxpayer as required. The significant decrease in the number of claims filed without an educational institution EIN appears to be the result of the revised wording on Form 8863 and related instructions.

In a prior report, we recommended that the IRS should establish processes to use its math error authority to deny all e-filed and paper AOTC claims for which the taxpayer does not provide the institution EIN for each student claimed on the return.[29] In response to that report, the IRS agreed that it had the authority to disallow these types of claims at the time the tax returns are processed. However, the IRS noted that procedures to identify these type of claims will not be

[28] TIGTA, Ref. No. 2018-40-012, *Results of the 2017 Filing Season* p. 16 (Jan. 2018).
[29] TIGTA, Ref. No. 2018-40-012, *Results of the 2017 Filing Season* p. 20 (Jan. 2018).

implemented until at least Processing Year 2019. IRS management stated that due to limited information technology resources, budget constraints, and competing priorities, they could not provide an implementation date.

Processes have been established to ensure that taxpayers comply with recertification reporting requirements for previously denied refundable credit claims

The PATH Act expanded the refundable credit recertification requirements[30] to include the CTC, the ACTC, and the AOTC. The Act also expanded the IRS's math error authority to deny claims when taxpayers do not recertify as required. The IRS has established processes to ensure that individuals who have a recertification indicator on their tax account file a Form 8862, *Information To Claim Certain Refundable Credits After Disallowance*, when the taxpayer claims a credit that was previously denied. E-filed tax returns that claim one of these credits without a Form 8862 are rejected. As of May 1, 2018, the IRS had rejected 594,440 e-filed returns claiming the EITC, 44,784 e-filed returns claiming the ACTC, and 6,844 e-filed returns claiming the AOTC.[31] Paper-filed returns without a Form 8862 are identified for manual review. Our analysis of the 135,640 tax accounts containing a recertification indicator for the ACTC or the AOTC found that processes to identify claims filed without a Form 8862 are working as intended. We are conducting a separate review to evaluate the IRS's verification of the Form 8862.[32]

Actions have been taken to recover millions in TIGTA-identified erroneous refundable credit claims

The IRS is taking steps to address erroneous and fraudulent EITC and ACTC claims identified by TIGTA. Since July 2017, we have issued three reports that identified individuals who erroneously received the EITC, the CTC/ACTC, and the AOTC. In each of these reports, we made recommendations to the IRS to take the actions needed to recover these erroneous payments.

- In July 2017, we reported that 15,744 taxpayers who filed a Tax Year 2014 return during the 2016 Filing Season received more than $34.8 million in erroneous EITC, CTC/ACTC, and AOTC payments because the IRS did not have the information it

---

[30] Individuals whose credit claim was denied for certain reasons or who were banned from receiving a credit must include a Form 8862, *Information To Claim Certain Refundable Credits After Disallowance*, with their tax return the next time they claim the credit.
[31] A tax return could have been rejected for more than one credit.
[32] TIGTA, Audit No. 201840037, *Assessment of the IRS's Use of Penalties to Improve Refundable Credit Compliance*.

needed to determine if the Taxpayer Identification Number (TIN) used on the tax return was issued timely.[33]

- In January 2018, we reported that individuals potentially received $637,181 in refundable tax credits and did not pay an estimated $359,127 in tax as a result of erroneous personal tax exemptions on 1,298 tax returns filed as of April 20, 2017, with an ITIN that should have been deactivated.[34]
- In February 2018, we reported that the IRS paid almost $9.8 million in refundable credits on 4,509 Tax Years 2013 through 2015 tax returns processed during the 2017 Filing Season for which the TIN was not issued by the due date of the tax return.[35]

We recommended that the IRS review the 21,551 returns we identified and take the actions needed to recover the erroneous payments. IRS management agreed with our recommendations. However, as of March 12, 2018, the IRS had still not taken action to recover erroneous payments associated with 21,545 (99.97 percent) of the 21,551 tax returns we identified. IRS management stated that they planned to use the IRS's math error authority to adjust the tax accounts of the 21,551 taxpayers we identified to recover the erroneous payments.

However, before the IRS could recover the payments, the National Taxpayer Advocate requested a formal opinion as to the IRS's authority to use its math error authority to retroactively recover erroneous credits. The IRS originally sent this request to the IRS's Office of Chief Counsel on September 8, 2017. In a memorandum dated April 10, 2018, the IRS's Chief Counsel concluded that the IRS could use its math error authority to recover erroneous credits even after the refunds had been issued to taxpayers. The IRS is unable to recover all the erroneous payments at one time because of certain operational constraints. For example, because these tax accounts are not being adjusted using normal deficiency procedures, the IRS has to perform manual steps to prepare and mail the notices. In addition, the Accounts Management function has to ensure that personnel are available to answer the telephone and respond to correspondence from these taxpayers. The IRS plans to adjust 1,000 cases per week until all of the cases are adjusted. As of August 31, 2018, the IRS has taken action to recover approximately $36.9 million in erroneous payments associated with 16,917 (78.5 percent) of the 21,551 returns.

---

[33] TIGTA, Ref. No. 2017-40-042, *Processes Do Not Maximize the Use of Third-Party Income Documents to Identify Potentially Improper Refundable Credit Claims* pp. 5 – 7 (July 2017).
[34] TIGTA, Ref. No. 2018-40-011, *Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met* p. 10 (Jan. 2018).
[35] TIGTA, Ref. No. 2018-40-015, *Employer Noncompliance With Wage Reporting Requirements Significantly Reduces the Ability to Verify Refundable Tax Credit Claims Before Refunds Are Paid* pp. 8 – 9 (Feb. 2018).

Evaluation of Key Tax Provisions Included in Legislation Affecting the 2018 Filing Season

The IRS developed processes to implement key tax provisions included in the Disaster Relief Act and the Tax Cuts and Jobs Act. As of May 4, 2018, our review showed that overall the IRS correctly updated IRS tax forms, schedules, publications, and information on IRS.gov.

- ***Disaster Relief Act*** – This Act provides tax relief for individuals affected by Hurricanes Harvey, Irma, and Maria. In December 2017, the Tax Cuts and Jobs Act expanded the provisions included in the Disaster Relief Act to all individuals affected by Presidentially declared disasters during Calendar Year 2016. In February 2018, the Bipartisan Budget Act extended tax relief for individuals affected by the California wildfires.

  Our review of tax forms and publications related to the various disaster tax relief provisions identified that Publication 976, *Disaster Relief*, a key publication the IRS provides to assist taxpayers with disaster relief information, was not made available to taxpayers until March 1, 2018. As previously indicated, legislation related to disaster relief was enacted in both December 2017 and February 2018. These late changes contributed to the delay in finalizing guidance to taxpayers in this area. In addition, we analyzed the accuracy of tax returns processed related to the following provisions:

  - *Charitable Contributions* – The IRS implemented processes to allow increased charitable contributions for those taxpayers contributing to a charity in one of the Federally or Presidentially declared disaster areas. The IRS also updated the Tax Year 2017 Instructions for Schedule A (Form 1040),[36] *Itemized Deductions*, and Publication 526, *Charitable Contributions*, with the applicable information. When the taxpayer claims a charitable contribution amount of more than 50 percent of his or her AGI, the IRS will manually ensure that the contribution is not more than 100 percent of AGI and that the contribution was to a charity in a qualified disaster area. As of May 3, 2018, there were 28.3 million taxpayers claiming cash charitable contributions, of which 5,087 claimed an amount greater than 50 percent of their AGI and the taxpayer and total contributions per the IRS was greater than $1.00.[37] Our review found that the IRS controls to identify tax returns for further review were working as intended.

  - *Personal Casualty Losses* – The IRS implemented processes to reject e-filed tax returns if the proper form to claim the personal casualty loss is not attached to the tax return. As of May 1, 2018, 206 tax returns have been rejected due to this rule. As of April 12, 2018, we reviewed 123,196 tax returns and found 124 tax returns that

[36] Form 1040, *U.S. Individual Income Tax Return*.
[37] This does not include tax returns with charitable contributions greater than 50 percent of AGI that involved a Schedule F, as these taxpayers are not subject to the 50 percent AGI limitation.

claimed a personal casualty loss but did not have the expected indicator on the taxpayer's account. However, after sending a portion of the cases to the IRS to review, IRS management indicated that, while the indicator may not be present on the tax account, there was other information in the tax record that we did not have that would support that the taxpayer was eligible to claim the personal casualty loss.

- *Election to use prior year earned income to claim the EITC and the ACTC* – The IRS implemented processes to allow taxpayers to claim the EITC using prior year earned income. IRS form instructions and publications include guidance informing taxpayers how to notate their return to indicate they are electing to use their prior year earned income amount to claim these credits. If the taxpayer uses the earned income from the prior year, the IRS will identify tax returns with a difference between what the taxpayer claimed and what the IRS computed for that benefit. The IRS will manually review these tax returns to determine if the taxpayer indicated that he or she is using his or her prior year income to claim the refundable credit.

  However, it appears that not all taxpayers claiming the EITC using the prior year earned income received the benefit intended from the disaster relief provision. For example, we identified 1,128 tax returns claiming the EITC using Tax Year 2016 earned income that were reviewed by the IRS and the EITC was adjusted to be computed based on the Tax Year 2017 earned income. The 1,128 tax returns had the EITC reduced by approximately $2.2 million. The IRS reviewed these tax returns and agreed they were worked incorrectly. IRS management indicated they would review the 1,128 accounts to ensure that the taxpayers receive the proper credit. Of the 1,128 tax returns, we found that 610 also had a claim for the ACTC of which 411 had the ACTC reduced by approximately $361,000. These were also likely worked in error, and the ACTC should be considered when the EITC review is completed.

In July 2018, we reported that the IRS provided timely disaster tax relief assistance to victims of Hurricanes Harvey, Irma, and Maria.[38] Specifically, we found that the IRS coordinated its efforts to provide relief to individuals and businesses. The IRS accurately placed disaster relief freeze codes and postponed examination activity on victims who were under examination at the time the hurricanes struck. In addition, the IRS ensured that telephone lines were adequately staffed and restored face-to-face services in the affected disaster areas. For example, the IRS reopened all of its Taxpayer Assistance Centers in Texas and Florida by September 19, 2017, and the Center in Puerto Rico was reopened on October 12, 2017.

- ***Tax Cuts and Jobs Act*** – The Tax Cuts and Jobs Act temporarily reduced the minimum percentage for which medical expenses must exceed the AGI to be eligible to claim a

[38] TIGTA, Ref. No. 2018-40-049, *Actions Were Taken to Timely Provide Disaster Tax Relief Assistance to Victims of Hurricanes Harvey, Irma, and Maria* (July 2018).

deduction from 10 percent to 7.5 percent. Our review of Form 1040, Schedule A, and related instructions, showed that the IRS adequately informed taxpayers of this change. However, as of June 28, 2018, Publication 502, *Medical and Dental Expenses*, had not been updated to reflect the change although it does have a link directing the taxpayer to IRS.gov where updated information is available. Our prior review[39] found that the IRS updated its programming to allow deductions for expenses that exceed the AGI by as low as 7.5 percent. We have separate audits ongoing and planned focusing on the IRS's implementation of this legislation.

- ***Bipartisan Budget Act*** – The Bipartisan Budget Act retroactively extended tax law provisions that had expired as of December 31, 2016, through Tax Year 2017. The majority of the tax forms and publications were updated for key extended tax provisions; however, the following items were not updated for the 2018 Filing Season:

  - Publication 523, *Selling Your Home*.
  - Publication 530, *Tax Information for Homeowners*.
  - Publication 936, *Home Mortgage Interest Deduction*.
  - Publication 970, *Tax Benefits for Education*.
  - Publication 4681, *Cancelled Debts, Foreclosures, Repossessions, and Abandonments.*

  We quantified two of the extender provisions related to individual taxpayers and determined that IRS programming was updated to allow the deductions. As of May 4, 2018, there were approximately 1.9 million Tax Year 2017 returns claiming the Mortgage Insurance Premium totaling approximately $3 billion, and there were 911,037 Tax Year 2017 returns claiming the Tuition and Fees Deduction totaling approximately $2.2 billion.

  We also analyzed 17 key provisions from the Bipartisan Budget Act. These provisions included the extension of general business credits, excise tax credit, and an excise tax imposed on crude oil. Our review of the provisions associated with the general business credits determined that the processing controls allowed the credits to be claimed after the provisions were extended. However, as of February 14, 2018, 11 processing controls related to the excise tax credit and the excise tax imposed on crude oil were not appropriately updated to reflect the changes made by the Bipartisan Budget Act. The IRS submitted computer programming changes fixing the processing controls as of February 22, 2018.

[39] TIGTA, Ref. No. 2018-40-028, *Interim Results of the 2018 Filing Season* (Apr. 2018).

Recommendation

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Ensure that the 1,128 accounts that did not receive the correct amount of the EITC and the 411 accounts that claimed the ACTC are reviewed and that taxpayers receive the proper amount of the credit to which they are entitled.

> **Management's Response:** The IRS agreed with this recommendation. IRS management is currently reviewing the affected accounts and making corrections, as needed.

Detecting and Preventing Tax Refund Fraud

As of April 28, 2018, the IRS reported that it had identified 136,484 tax returns with approximately $885 million claimed in fraudulent refunds and prevented the issuance of approximately $802 million (90.6 percent) of those refunds. Figure 10 shows the number of fraudulent tax returns identified by the IRS for Processing Years 2015 through 2017, as well as the refund amounts that were claimed and stopped.

Figure 10: Fraudulent Tax Returns and Refunds Identified and Stopped in Processing Years 2015 Through 2017

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refunds Identified	Amount of Fraudulent Refunds Stopped
2015	1,811,354	1,646,155	$12,369,252,837	$11,639,842,002
2016	1,067,878	991,681	$7,970,283,186	$7,648,398,857
2017	910,686	825,977	$10,168,246,282	$9,602,373,819

Source: IRS fraudulent tax return statistics for Processing Years 2015 through 2017.

The decrease in the number of fraudulent tax refunds the IRS detects and stops is attributable to the IRS's efforts to expand processes to prevent fraudulent tax returns from ever entering the tax processing system, *i.e.*, rejecting e-filed tax returns and preventing paper-filed tax returns from posting. For example, as of April 26, 2018, the IRS had locked approximately 36.4 million taxpayer accounts of deceased individuals. The locking of a tax account results in the rejection of an e-filed tax return and the prevention of a paper-filed tax return from posting to the Master File if the Social Security Number (SSN) associated with a locked tax account is used to file a tax return. According to the IRS, as of April 30, 2018, it had rejected 20,828 fraudulent e-filed tax returns, and as of April 26, 2018, it had stopped 3,173 paper-filed tax returns from posting to the Master File.

Detection of tax-related identity theft

For the 2018 Filing Season, the IRS is using 200 identity theft filters to identify potentially fraudulent tax returns and prevent the issuance of fraudulent tax refunds. These filters incorporate criteria based on characteristics of confirmed identity theft tax returns, including amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, and filing history.

Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. The IRS attempts to contact the individual who filed the tax return and, if the individual's identity cannot be confirmed, the IRS removes the tax return from processing. This prevents the issuance of many fraudulent tax refunds. As of April 30, 2018, the IRS reported that it had identified 2.8 million tax returns with refunds totaling $16.6 billion for additional review as a result of the identity theft filters. As of the same date, the IRS had confirmed 48,710 fraudulent tax returns and prevented the issuance of approximately $616 million in fraudulent tax refunds. Figure 11 shows the number of identity theft tax returns the IRS identified and confirmed as fraudulent in Processing Years 2016 through 2018.

Figure 11: Identity Theft Tax Returns Confirmed As Fraudulent in Processing Years 2016 Through 2018

Processing Year	Number of Identity Theft Tax Returns[40]
2016	119,798
2017	75,797
2018	48,710

Source: IRS fraudulent tax return statistics for Processing Year 2016 (as of April 30, 2016); Processing Year 2017 (as of April 29, 2017); and Processing Year 2018 (as of April 30, 2018).

We are conducting a separate review of the IRS's efforts to detect and prevent identity theft and plan to issue our report later this calendar year.[41]

[40] According to IRS management, the decrease in confirmed identity theft returns as fraudulent is because the filing season started one week later this year than the 2017 Filing Season and two weeks later than the start of the 2016 Filing Season.

[41] TIGTA, Ref. No. 2019-40-012, *Partnership With State and Industry Leaders Is a Key Focus in Further Reducing Tax-Related Identity Theft* (Dec. 2018).

Processing of paper tax returns to identify employment identity theft

Cases of employment identity theft identified by the IRS frequently involve an ITIN filer who uses the SSN of another individual to gain employment. This can cause significant burden to innocent taxpayers, including the incorrect computation of taxes based on income that does not belong to them. Employment identity theft can occur if an ITIN is used as either the primary or secondary TIN on the Form 1040 tax return, and a Form W-2 included with the return has an SSN that does not match either the primary or secondary taxpayer on the front of the tax return.

In June 2017, TIGTA reported that IRS processes do not identify employment identity theft when processing paper tax returns.[42] We recommended that the IRS develop processes and procedures to identify potential employment identity theft on paper tax returns and add an employment identity theft marker to the valid SSN owners' tax accounts. The IRS agreed with our recommendation and stated that it is implementing a process to identify tax returns filed using an ITIN that have Forms W-2 containing an SSN on paper-filed returns and will forward those returns to the IRS's Error Resolution function for special handling.[43]

The IRS process identifies tax returns that report wages in which the primary or secondary TIN begins with a "9" indicating a possible ITIN. The Error Resolution function reviews these returns to determine whether the reported wages are supported by a Form W-2 attached to the return and the TIN on the Form W-2 matches the primary or secondary TIN. When the TIN on the Form W-2 does not match the primary or secondary TIN, IRS guidelines require tax examiners to capture the TIN from the attached Form W-2 into the return record. As of May 2, 2018, the IRS reports that more than 350,000 paper-filed tax returns were identified and referred to the Error Resolution function as a potential ITIN/SSN mismatch.[44]

We evaluated the actions taken by the IRS to address our recommendation including ensuring that an employment identity theft marker is added to the tax account of the legitimate taxpayer whose personal information was stolen to gain employment. As of May 3, 2018, we identified 198,729 TINs that the IRS had determined were used by ITIN holders to gain employment. Of the 198,729 TINs identified, 103,826 (52.2 percent) did not receive an identity theft marker because the account was not on the Master File. When an account is not on the Master File, this is an indication that the TIN holder is not filing tax returns. Therefore, the IRS is unable to determine the name and address to send a notice informing the individual that his or her TIN was

[42] TIGTA, Ref. No. 2017-40-031, *The Number of Employment-Related Identity Theft Victims Is Significantly Greater Than Identified* (June 2017).
[43] The IRS will capture the SSN information from the attached Form W-2 when it is different than the ITIN used on the front of the tax return by either the primary or secondary taxpayer.
[44] These paper-filed tax returns are potential ITIN/SSN mismatch cases until the Error Resolution function reviews them for a final decision. In the prior report (TIGTA, Ref. No. 2018-40-028, *Interim Results of the 2018 Filing Season* (Apr. 2018)), we reported that as of February 28, 2018, 132,266 paper-filed returns were identified with an ITIN/SSN mismatch and referred to the Error Resolution function. Subsequently, we identified that only approximately 49,000 potential ITIN/SSN mismatch cases had been referred to the Error Resolution function as of February 28, 2018.

used by another person to obtain employment. The remaining 94,903 (47.8 percent) received the employment identity theft marker on their tax accounts.

Screening of prisoner tax returns

As of April 28, 2018, the IRS reported that it had identified for screening 28,443 potentially fraudulent tax returns filed by prisoners.[45] Figure 12 shows the number of prisoner tax returns identified for screening in Processing Years 2017 and 2018.

Figure 12: Prisoner Tax Returns Identified for Screening in Processing Years 2017 and 2018 (as of April 28, 2018)

Processing Year	Number of Prisoner Tax Returns Identified for Screening
2017	31,735
2018	28,443

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

To combat refund fraud associated with tax returns filed using prisoner SSNs, the IRS compiles a list of prisoners (the Prisoner File) received from the Federal Bureau of Prisons and State Departments of Corrections. In addition, the IRS uses Prisoner Update Processing System data from the Social Security Administration to identify tax returns filed using a prisoner SSN for additional screening. These files are the cornerstone of the IRS's efforts to prevent the issuance of fraudulent refunds to individuals filing false tax returns using a prisoner SSN.

Providing Customer Service

The IRS provides assistance to millions of taxpayers via the telephone, its website (IRS.gov), and social media platforms, as well as face-to-face at its Taxpayer Assistance Centers (TAC) and Volunteer Income Tax Assistance sites. The IRS is continuing its trend to depend more on technology-based services and external partners by directing taxpayers to the most cost-effective IRS or partner channel available to provide the needed service. The various self-assistance options the IRS provides enable taxpayers to access the information they need 24 hours a day, seven days a week. The most notable self-assistance option is the IRS's public Internet site, IRS.gov. The IRS has been actively steering taxpayers to its website as the best source for

[45] Tax returns filed using a prisoner's name and SSN.

answers to their tax questions. The IRS reported 410.1 million visits to IRS.gov this filing season as of May 5, 2018. The IRS also continues to expand its online tools available on IRS.gov. These tools allow taxpayers to more effectively research tax law, check on the status of their refund, evaluate withholding relative to the Tax Cuts and Jobs Act, make payments, and obtain tax account information. For example:

- ***Interactive Tax Assistant*** – This tool is a tax law resource that takes taxpayers through a series of questions and provides them with responses to basic tax law questions. The IRS reports that from January 1 through May 4, 2018, more than 1.1 million requests had been completed.
- ***Where's My Refund?*** – This tool allows taxpayers to check the status of their refunds using the most up-to-date information available to the IRS. The IRS reports that as of May 5, 2018, there have been 278.3 million uses of the tool.
- ***Withholding Calculator*** – This calculator provides taxpayers with the ability to determine tax liability and withholding under the Tax Cuts and Jobs Act. The calculator also provides taxpayers with a suggestion to the number of withholding allowances they should claim for the remainder of the tax year.
- ***IRS Direct Pay*** – This secure service can be used to pay taxes for Form 1040 series tax returns, estimated taxes, or other associated forms directly from a checking or savings account at no cost to the taxpayer.
- ***Get Transcript*** **–** This application allows taxpayers to view and download their tax information, such as account transactions, line-by-line tax return information, and income reported to the IRS.

Finally, the IRS offers taxpayers the ability to obtain information and interact with the IRS using their mobile devices. For example, the IRS offers IRS2Go and uses various forms of social media including YouTube, Twitter, Facebook, and Tumblr. As of May 4, 2018, the IRS reports that the IRS2Go mobile application had approximately 7.7 million active users. In addition, as of May 4, 2018, there have been 756,035 views of IRS YouTube videos and 82,959 Facebook followers. Also, as of May 4, 2018, there have been a total of 156,779 Twitter followers and a total of 10,582 Tumblr followers.

Toll-free telephone level of assistance increased

As of May 5, 2018, taxpayers made more than 54.7 million total attempts and approximately 39.7 million net attempts[46] to contact the IRS by calling the various customer service toll-free telephone assistance lines. The IRS reports that nearly 18.8 million calls were answered with automation, and telephone assistors answered nearly 11.8 million calls and provided an

[46] Total call attempts represent calls received during open and after hours. Total net call attempts represent calls received during open hours.

80.2 percent Level of Service with a 5.3 minute Average Speed of Answer. The IRS forecasted an 80 percent Level of Service for the 2018 Filing Season. Figure 13 shows a comparison of IRS toll-free telephone statistics as of May 5, 2018, for Fiscal Years 2017 and 2018.

Figure 13: Toll-Free Filing Season Telephone Statistics for Fiscal Years 2017 and 2018 (as of May 5, 2018)

	Fiscal Year	
Statistic	**2017**	**2018**
Assistor Calls Answered	10,998,399	11,753,053
Level of Service	78.9%	80.2%
Average Speed of Answer (Minutes)	6.9	5.3

Source: IRS management information reports as of May 5, 2018.

We have a separate audit assessing the IRS's telephone performance measures.[47]

Appointment service reduces demand on the TACs and results in more taxpayers being assisted

Each year, many taxpayers seek assistance from one of the IRS's walk-in offices, called the TACs. Although the IRS reports having 371 TACs at the beginning of the 2018 Filing Season, 28 TACs were not open as they had not been staffed. As of April 18, 2018, the IRS reports having 363 TACs with only 339 that are staffed and open. The IRS indicated that budget cuts and its strategy of appointment service at the TACs, along with continued promotion of alternative service options, will result in the reduction of the number of employees to assist taxpayers at the TACs. For example, the estimated number of taxpayers the IRS will assist at its TACs will continue to decrease. The IRS plans to assist approximately three million taxpayers at its TACs in Fiscal Year 2018, an approximately 9 percent decrease from Fiscal Year 2017. Figure 14 shows the number of contacts made by product line at the staffed TACs for Fiscal Years 2017 and 2018.

[47] TIGTA, Audit No. 201840025, *Follow-Up Review of Telephone Performance Measures.*

Figure 14: TAC Contacts for Fiscal Years 2017 and 2018

Type of Contact	Fiscal Year	
	2017	2018 Projections
Staffed TACs[48]	352	339
Tax Account Contacts	2.2 million	2.0 million
Forms Contacts	90,000	60,000
Other Contacts[49]	1.0 million	0.9 million
Tax Law Contacts	30,000	30,000
Total Contacts	**3.3 million**	**3.0 million**

Source: IRS management information reports. Numbers shown are rounded and totals may not calculate due to rounding.

For the 2018 Filing Season, the IRS continues with its appointment service for the TACs. The IRS indicated that it initially began providing services at the TACs by appointment in an attempt to alleviate long lines that sometimes occur at many of the TACs and to help ensure that taxpayers' issues are timely resolved. As a further service to taxpayers, the IRS will attempt to resolve the taxpayer's question or provide the taxpayer with information on alternative services when they call to schedule an appointment. The IRS reports that as of May 4, 2018,[50] IRS employees answered nearly 2.1 million calls to schedule an appointment with approximately 947,000 that necessitated the taxpayer schedule an appointment and visit a TAC. The IRS was able to assist approximately 1.2 million taxpayers who called for an appointment without the taxpayer having to come to the TAC. The IRS noted that taxpayers who travel to a TAC without an appointment are assisted if there is availability. As of May 4, 2018, the IRS reported that it provided assistance to more than 120,000 taxpayers with issues that should have required an appointment. Overall, the IRS reports 1.7 million taxpayers were provided face-to-face service. Figure 15 shows a comparison of IRS taxpayer assistance and appointment service statistics as of May 4, 2018, for Fiscal Years 2017 and 2018.

[48] The staffed TACs are as of April 29, 2017, for the 2017 Filing Season and as of April 18, 2018, for the 2018 Filing Season.
[49] Other Contacts includes but is not limited to: accepting 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 (only in Fiscal Year 2015); and helping taxpayers with general information such as addresses and directions to other IRS offices or other Federal Government agencies.
[50] For Fiscal Year 2018 – October 1, 2017, through May 4, 2018.

Figure 15: Taxpayer Assistance and Appointment Service Statistics for Fiscal Years 2017 and 2018 (as of May 4, 2018)

Statistic	Fiscal Year 2017	Fiscal Year 2018
Assistor Calls Answered (for Appointments)	2.1 million	2.1 million
Calls Not Requiring an Appointment	*1.2 million*	*1.2 million*
Appointments Scheduled	*0.9 million*	*0.9 million*
Face-to-Face Assistance in a TAC	1.9 million	1.7 million
Walk-in Exceptions (No Scheduled Appointment)	0.3 million	0.1 million

Source: IRS management information reports as of April 29, 2017 (for Fiscal Year 2017), and as of May 4, 2018 (for Fiscal Year 2018).

The IRS also continues to offer Virtual Service Delivery, which integrates video and audio technology to allow taxpayers to see and hear an IRS assistor located at a remote TAC, giving taxpayers "virtual face-to-face interactions" with assistors. According to the IRS, taxpayers can use this technology to obtain many of the TAC's services. The goal for the Virtual Service Delivery Program is to enhance the use of IRS resources, optimize staffing, and balance workload. For the 2018 Filing Season, the IRS is offering Virtual Service Delivery at 35 partner site locations, compared to 28 locations the previous year. The IRS also plans to add 12 Virtual Service Delivery sites during Calendar Year 2018. The IRS reports that as of May 4, 2018,[51] a total of 159 taxpayers have used the service. Finally, the IRS also has an initiative to co-locate with the Social Security Administration to assist taxpayers. For the 2018 Filing Season, the IRS has placed employees in four Social Security Administration locations. The IRS reports that as of May 4, 2018, a total of 1,105 taxpayers have used the service.

TIGTA has a separate audit to assess the IRS's efforts to expand customer service options to taxpayers seeking face-to-face assistance.[52]

The number of Volunteer Program sites decreased but the volume of tax returns prepared is consistent

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

[51] For Fiscal Year 2018 – October 1, 2017, through May 4, 2018.
[52] TIGTA, Audit No. 201840028, *Strategy to Assist Taxpayers Who Seek Face-to-Face Assistance*.

return preparation and e-filing to underserved taxpayer segments, including low-income, elderly and disabled, rural, limited-English-proficient, and Native Americans. As of May 7, 2018, approximately 3.5 million tax returns have been prepared at the 11,044 Volunteer Program sites nationwide. In comparison, as of May 8, 2017, approximately 3.5 million tax returns had been prepared at the 11,469 Volunteer Program sites nationwide. Figure 16 shows the number of tax returns prepared by volunteers from Fiscal Years 2015 through 2017.

Figure 16: Volunteer Program Statistics for Fiscal Years 2015 Through 2017

	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017
Tax Returns	3,756,707	3,813,411	3,558,491
Volunteers	90,826	89,121	87,214
Sites	12,057	11,831	11,469

Source: IRS management information system containing information for Fiscal Years 2015 through 2017.

According to IRS management, the decrease in the number of volunteer sites since Fiscal Year 2015 is due in part to the costs associated with providing free services at each location. Several smaller sites consolidated in order to combine their resources to better support equipment and volunteer resource needs. Another large partner supporting 300 separate sites withdrew from the program because of increased costs associated with providing free services to a growing number of its members.

Accounts Management function's over-aged inventory increased

As of May 5, 2018, the IRS reported 738,959 cases in its over-aged inventory. In comparison, for the 2017 Filing Season, the IRS reported 470,817 cases in its over-aged inventory as of May 6, 2017. Accounts Management function inventory includes, but is not limited to, amended tax returns, responses to taxpayer notices, and identity theft cases and is considered over-aged when it has been in inventory for more than a designated number of calendar days. The staff responsible for working taxpayer correspondence is divided between working taxpayer correspondence and staffing the customer service telephone lines. During the 2018 Filing Season, the IRS committed to deliver an 80 percent Level of Service on the telephone lines, which resulted in fewer resources available for processing paper inventories. Consequently, the inventory and over-aged levels increased. According to IRS management, the telephone schedules have been completed which allowed each site to focus on over-aged inventory, which is evident by the reduction in over-aged inventory of 523,175 on August 18, 2018, compared to 604,742 as of August 19, 2017.

Issuance of Identity Protection Personal Identification Numbers (IP PIN) to victims of identity theft

Tax-related identity theft continues to be one of the biggest challenges facing the IRS. To provide relief to victims of identity theft, the IRS began issuing IP PINs to eligible taxpayers in Fiscal Year 2011. An IP PIN is a six-digit number assigned to eligible taxpayers that allows their tax returns/refunds to be processed without delay and helps prevent the misuse of their SSN on fraudulent income tax returns. IP PINs are issued before each filing season, and taxpayers who receive these numbers are instructed by the IRS to use them on their e-filed and paper tax returns to confirm their identity. The IRS will issue victims of identity theft a new IP PIN each year for use in filing their tax return. In preparation for the 2018 Filing Season, the IRS issued nearly 3.5 million IP PINs to taxpayers who were victims of identity theft.[53]

In April 2018, TIGTA reported that as of December 14, 2017, there were more than 3.7 million tax accounts the IRS considered to be confirmed victims of identity theft, although 606,859 (16 percent) of the more than 3.7 million accounts did not require a notice given the IRS's current criteria.[54] Taxpayers may not require a notice if the IRS has an indication that they were deceased or did not have a usable address. We found that of the more than 3.1 million remaining tax accounts requiring a notice with an IP PIN, only 90 (0.01 percent) did not receive such a notice. These 90 taxpayers did not receive a notice because their account was improperly merged to another TIN. The IRS modified the programming to address this issue on June 28, 2018. The IRS confirmed that these accounts should have received an IP PIN and had input the identity theft indicator on each of the accounts.

The IRS does not issue an IP PIN to ITIN taxpayers who are confirmed identity theft victims

As previously stated, the IRS does not issue an IP PIN to all confirmed victims of identity theft. For example, in addition to not issuing an IP PIN to deceased taxpayers or those whose address is not useable, the IRS also does not issue an IP PIN to taxpayers with a TIN beginning with "9," which includes ITINs.[55] We agree with the IRS in regard to not issuing an IP PIN for tax accounts in which the taxpayer is deceased or has an undeliverable address. However, the restriction on IP PINS for ITIN holders can cause undue burden to those taxpayers. We analyzed approximately 3.8 million confirmed identity theft victim tax accounts and found that

[53] This includes individuals the IRS has confirmed as identity theft victims as well as those the IRS suspects of being an identity theft victim.
[54] TIGTA, Ref. No. 2018-40-028, *Interim Results of the 2018 Filing Season* (Apr. 2018).
[55] TINs beginning with "9" indicate either an ITIN used by taxpayers ineligible for an SSN, an Adoption Taxpayers Identification Number used by taxpayers when adopting a child without an SSN, or an IRS Number used by the IRS when other TINs are unavailable for processing.

37,555 (1 percent) were ITIN accounts. Due to the IRS's current restriction, these 37,555 tax accounts will not receive the same identity theft protection measures as SSN holders.

IRS management stated that they believe the integrity of the IP PIN program, as well as the IRS's reputation, would be at risk if an IP PIN were issued to an ITIN holder who is also committing employment-related identity theft. The IRS reviewed the 37,555 taxpayer accounts we identified and concluded that, while the ITIN holder was a victim of identity theft, more than 46 percent of these taxpayers also contributed to employment identity theft by working under someone else's SSN. However, the IRS's review also concluded that the remaining 54 percent of ITIN holders *did not* use someone else's SSN to gain employment. Under the IRS's current policy, these taxpayers are not provided the same level of identity theft protection as other victims.

IRS management indicated that the placement of the identity theft indicator on the ITIN holder's account provides some protection by alerting IRS personnel that an identity theft incident has taken place. IRS management also stated that even though these returns do not receive an IP PIN to expedite processing, these returns are reviewed to ensure that each return is from the legitimate taxpayer before it is posted and any refunds are issued. Nonetheless, the return is suspended and refunds delayed while this additional review occurs. Tax returns filed by victims using an IP PIN are not suspended for additional review and their refunds are not delayed, unless there is other suspicious or fraudulent activity on the return.

IRS management stated that they do not believe a "one size fits all approach" is appropriate when issuing an IP PIN to ITIN holders; however, they agreed to consider including ITIN holders as possible candidates for the IP PIN opt-in program.[56]

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 2***:*** Expand the IP PIN opt-in program to allow ITIN holders who are not automatically issued an IP PIN the option to obtain an IP PIN. The IRS should notify these individuals of the option to obtain an IP PIN and provide instructions on how to do so.

> ***Management's Response:*** The IRS agreed with this recommendation and plans to expand the IP PIN opt-in program to allow ITIN holders whose identities have been compromised to participate.

Recommendation 3: Revise processes for issuing an IP PIN so that an IP PIN is automatically issued to ITIN holders who are confirmed victims of identity theft and who are not working under someone else's SSN.

[56] The IRS's IP PIN opt-in program is available for certain designated taxpayers who are not automatically included in the IP PIN program.

Management's Response: The IRS partially agreed with this recommendation. IRS management does not believe automatic assignment of IP PINs is prudent at this time. However, the IRS plans to modify the IP PIN program to expand participation eligibility to taxpayers filing under ITINs who are confirmed victims of identity theft. Eligible individuals within the ITIN population, who are not improperly using another person's SSN to obtain employment, will have the ability to request participation in the program.

Office of Audit Comment: We believe automatically issuing an IP PIN to ITIN holders that are confirmed victims of identity theft and who are not working under someone else's SSN is the best solution. However, we agree that the alternative the IRS provides in its response to Recommendation 2 will serve to enable these ITIN taxpayers to participate in the IP PIN program.

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 2018 Filing Season.[1] To accomplish our objective, we:

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

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

A. Identified the volume of paper-filed and e-filed tax returns received through May 4, 2018, from the IRS Weekly Filing Season reports that provide a year-to-date comparison of scheduled return receipts to actual return receipts.

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

III. Determined if the IRS correctly implemented selected new tax law provisions and the tax extenders that affected the processing of individual taxpayer returns during the 2018 Filing Season.

A. Identified the following selected provisions that will have an impact on taxpayers:

1. Disaster Tax Relief and Airport and Airway Extension Act of 2017[2] (hereafter referred to as the Disaster Relief Act) contains provisions that are specific to individuals living in declared areas affected by the Calendar Year 2017 hurricanes.

2. Tax Cuts and Jobs Act of 2017[3] changed the minimum percentage reduction from 10 percent to 7.5 percent for which medical expenses must exceed AGI to be eligible to claim a deduction for Tax Year 2017.

3. Bipartisan Budget Act of 2018[4] includes provisions that had expired as of December 31, 2016, but were retroactively extended through December 31, 2017.

[1] See Appendix V for a glossary of terms.
[2] Pub L. No. 115-63, 131 Stat. 1168 (codified in scattered sections of the I.R.C. and Title 49 of the U.S. Code).
[3] Pub L. 115-97, 131 Stat. 2054.
[4] Pub L. 115-123, 132 Stat. 64.

4. Consolidated Appropriations Act of 2016[5] includes integrity provisions in the PATH Act.

B. Evaluated procedures developed by the IRS to evaluate tax returns related to provisions in the Disaster Relief Act.

1. Evaluated tax returns claiming qualified charitable contributions for disaster relief that were not subject to the percentage of AGI limitations.

2. Evaluated tax returns claiming personal casualty losses in one of the qualified hurricane disaster areas.

3. Evaluated tax returns claiming the EITC and the ACTC based on the prior year earned income (Tax Year 2016).

C. Evaluated procedures developed by the IRS to evaluate tax returns related to provisions in the Bipartisan Budget Act of 2018.

1. Quantified tax returns claiming the Tuition and Fees deduction.

2. Quantified tax returns claiming the Mortgage Interest Premiums deduction.

D. Evaluated procedures developed by the IRS to evaluate tax returns related to provisions in the PATH Act.

1. Evaluated tax returns with a recertification indicator on the account to determine if a Form 8862, *Information To Claim Certain Refundable Credits After Disallowance*, was filed when the ACTC or the AOTC was claimed.

2. Determined if refunds from EITC/ACTC claims were properly held until at least February 15, as required.

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

IV. Provided statistics related to the IRS's implementation of the ACA tax provisions.

V. Provided information on APTC recipients who did not file a tax return and determined how many APTC recipients were repeat nonfilers in Tax Years 2015 and 2016.

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

A. Determined if the IRS implemented controls for processing paper tax returns with a potential ITIN/SSN mismatch and if those controls are working.

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

B. Determined if the IRS reviewed the potentially erroneous retroactive claims for refundable credits that TIGTA sent to the IRS during the previous two refundable credit audits[6] and took action to ensure that erroneous credits were recovered and any credits denied were subsequently paid.

C. Determined the number of Forms W-2, *Wage and Tax Statement,* and Forms 1099-MISC, *Miscellaneous Income*, reporting nonemployee compensation that were submitted and the number of employers who submitted the forms.

D. Determined how many Forms W-2 and Forms 1099-MISC reporting nonemployee compensation were available to support wages or other income on the tax returns that were held until February 15, 2018.

E. Determined whether the tax returns held until February 15, 2018, that had an information return available for review, were actually reviewed prior to releasing the refund.

VII. Identified results of the IRS's identity theft and tax refund fraud programs. We quantified fraudulent tax returns and tax returns filed by prisoners.

VIII. Identified individual taxpayers who should get an IP PIN notice and determined if those taxpayers were notified prior to the start of the 2018 Filing Season.

IX. Identified results for IRS self-assistance through IRS.gov.

X. Identified results for the IRS TAC Program.

XI. Identified results for the Toll-Free Telephone Assistance Program.

XII. Identified results for the Volunteer Income Tax Assistance Program.

XIII. Monitored the Accounts Management function correspondence inventory.

Data validation methodology

During this review, we obtained extracts from the IRS's Individual Master File and Individual Return Transaction File databases for Processing Year 2018 that were available on TIGTA's Data Center Warehouse. We obtained extracts of Tax Year 2017 Forms W-2 and Forms 1099-MISC databases from the IRS's Information Returns Master File that were available on TIGTA's Data Center Warehouse. 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. We also performed

[6] TIGTA, Ref. No. 2017-40-042, *Processes Do Not Maximize the Use of Third-Party Income Documents to Identify Potentially Improper Refundable Credit Claims* (July 2017) and TIGTA, Ref. No. 2018-40-015, *Employer Noncompliance With Wage Reporting Requirements Significantly Reduces the Ability to Verify Refundable Tax Credit Claims Before Refunds Are Paid* (Feb. 2018).

analysis to ensure the validity and reasonableness of our data, such as ranges of dollar values, transaction dates, and tax periods. Based on the results of our testing, we believe that the data used in our review were 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: the process for planning, organizing, directing, and controlling program operations for the 2018 Filing Season. We evaluated these controls by monitoring IRS weekly production meetings, reviewing IRS procedures, and reviewing IRS reports.

Appendix II

Major Contributors to This Report

Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services)
Deann L. Baiza, Director
Sharla J. Robinson, Audit Manager
Sandra L. Hinton, Lead Auditor
John L. Hawkins, Senior Auditor
Tracy M. Hernandez, Senior Auditor
J. Edmund Carr III, Senior Audit Evaluator
Michael J. Bibler, Auditor

Appendix III

Report Distribution List

Deputy Commissioner for Services and Enforcement
Chief Counsel
National Taxpayer Advocate
Commissioner, Wage and Investment Division
Deputy Commissioner, Wage and Investment Division
Director, Accounts Management, Wage and Investment Division
Director, Business Modernization Office, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
Director, E-File Services, Wage and Investment Division
Director, Field Assistance, Wage and Investment Division
Director, Joint Operation Center, Wage and Investment Division
Director, Stakeholder Partnership, Education, and Communications, Wage and Investment Division
Director, Strategy and Finance, Wage and Investment Division
Director, Submission Processing, Wage and Investment Division
Chief, Program Evaluation and Improvement, Wage and Investment Division
Director, Office of Audit Coordination

Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $208,940,152 in refundable AOTCs received by taxpayers who claimed the AOTC but did not include the educational institution EIN on their tax returns as required (see page 10).

Methodology Used to Measure the Reported Benefit:

We identified 7,215,880 Tax Year 2017 tax returns processed as of May 3, 2018, that claimed the refundable education credit greater than zero dollars. We matched these returns to the Individual Return Transaction File to identify 7,215,039 tax returns that had a Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits)*, present when claiming the credit. We also matched those returns to the Individual Master File Other Tax Module Transactions Table located on TIGTA's Data Center Warehouse to determine if the Transaction Code 766 with Reference Number 260 was on the tax account indicating a refundable education credit. We identified 234,053 taxpayers who received the AOTC totaling $208,940,152 but did not include the educational EIN on their Form 8863 when claiming the credit as required. This outcome measure relates to a recommendation made in a prior report (discussed on page 16) that the IRS should establish processes to use its math error authority to deny all e-filed and paper AOTC claims for which the taxpayer does not provide the institution EIN for each student claimed on the return.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 1,128 taxpayers who did not receive EITCs totaling $2,187,496 to which they were entitled as a result of the IRS incorrectly basing the credit amount on Tax Year 2017 income (see page 19).

Methodology Used to Measure the Reported Benefit:

The EITC is claimed on Form 1040, *U.S. Individual Income Tax Return*. For Tax Year 2017, taxpayers could elect to use prior year earned income to figure their amount of the EITC if their Tax Year 2016 earned income was greater than their Tax Year 2017 earned income and they were in either the Hurricane Harvey, Hurricane Irma, Hurricane Maria, or California wildfire disaster areas.

We received Tax Year 2017 return data from TIGTA's Strategic Data Services for taxpayers with a 2017 IRS Disaster Assistance Declaration. We matched the related return data to the Individual Return Transaction File to get the Tax Year 2016 earned income amount. In addition, we verified that the taxpayers were in the Hurricane Harvey, Hurricane Irma, Hurricane Maria, or California wildfire disaster areas and that the Tax Year 2016 income amount was greater than the Tax Year 2017 earned income amount. We then matched the Tax Year 2016 earned income amount to the Tax Year 2017 Earned Income Credit Table. This identified 1,442 tax returns. Our review of the 1,442 returns identified 1,128 returns for which the taxpayer claimed, but was not allowed, the EITC using prior year earned income. We found that the IRS incorrectly reduced or disallowed the EITC for these 1,128 tax returns processed as of May 3, 2017, resulting in these taxpayers receiving $2,187,496 less in EITCs than they were entitled to receive.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 411 taxpayers who did not receive the ACTC totaling $360,611 to which they were entitled as a result of the IRS incorrectly basing the credit amount on Tax Year 2017 income (see page 19).

Methodology Used to Measure the Reported Benefit:

Taxpayers claim the ACTC on Form 1040. For Tax Year 2017, taxpayers could elect to use prior year earned income to figure their amount of the ACTC if their Tax Year 2016 earned income was greater than their Tax Year 2017 earned income and they were in either the Hurricane Harvey, Hurricane Irma, Hurricane Maria, or California wildfire disaster areas. If the taxpayer elected to use Tax Year 2016 earned income to claim the EITC, they must also use their Tax Year 2016 earned income to figure the ACTC.

We received Tax Year 2017 return data from TIGTA's Strategic Data Services for taxpayers with a 2017 IRS Disaster Assistance Declaration. We matched the return data to the Individual Return Transaction File to get the Tax Year 2016 earned income amount. In addition, we verified that the taxpayers were in the Hurricane Harvey, Hurricane Irma, Hurricane Maria, or California wildfire disaster areas and that the Tax Year 2016 income amount was greater than the Tax Year 2017 earned income amount. We then matched the Tax Year 2016 earned income amount to the Tax Year 2017 Earned Income Credit Table. This identified 1,442 returns. Our review of the 1,442 returns identified 1,128 returns for which the taxpayer claimed, but was not allowed, the EITC using prior year earned income. In addition, 411 of the 1,128 returns also had the amount of the ACTC reduced or disallowed. We found that the IRS incorrectly reduced or disallowed the ACTC for these 411 tax returns processed as of May 3, 2018, resulting in those taxpayers receiving $360,611 less in the ACTC than they were entitled to receive.

Appendix V

Glossary of Terms

Term	Definition
Additional Child Tax Credit	The refundable portion of the CTC that was designed to reduce the income tax burden for families with dependent children. It is used to adjust the individual income tax structure to reflect a family's reduced ability to pay taxes as family size increases.
Advance Premium Tax Credit	A tax credit that is paid in advance to a taxpayer's insurance company to help cover the cost of premiums.
American Opportunity Tax Credit	A partially refundable Federal tax credit used to help parents and college students offset the costs of college.
Average Speed of Answer	The average number of seconds taxpayers waited in the assistor queue (on hold) before receiving services.
Child Tax Credit	A tax credit for families with dependent children that is used to reduce the individual income tax burden for families, better recognize the financial responsibilities of raising dependent children, and promote family values.
Data Center Warehouse	A TIGTA repository of IRS data.
Earned Income Tax Credit	The EITC is used to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment.
Exchange	The Exchange is where taxpayers find information about health insurance options, purchase qualified health plans, and, if eligible, obtain help paying premiums and out-of-pocket costs. It is also known as the Health Insurance Marketplace or Health Insurance Exchange.
Filing Season	The period from January 1 through mid-April when most individual income tax returns are filed.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

Term	Definition
Free File	A free Federal tax preparation and e-filing program for eligible taxpayers developed through a partnership between the IRS and the Free File Alliance, LLC. The Alliance is a group of private sector tax software companies.
Individual Master File	An IRS database that maintains transactions or records of individual tax accounts.
Individual Return Transaction File	A database the IRS maintains that contains information on the individual tax returns it receives.
Individual Taxpayer Identification Number	A number created by the IRS to provide TINs to individuals who do not have and 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.
Level of Service	The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS's toll-free telephone lines.
Marketplace	The Marketplace is the place for people without health insurance to find information about health insurance options and to purchase health insurance. It is also known as the Health Insurance Marketplace or Health Insurance Exchange.
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
Minimum Essential Coverage	Health insurance coverage that contains essential health benefits including emergency services, maternity and newborn care, and preventive and wellness services. Minimum essential coverage also includes doctor visits, hospitalization, mental health services, and prescription drugs.
Premium Tax Credit	A refundable tax credit created by the ACA to assist eligible taxpayers with paying their health insurance premiums.
Processing Year	The calendar year in which the tax return or document is processed by the IRS.

Term	Definition
Shared Responsibility Payment	Beginning with the 2015 Filing Season, if a taxpayer or anyone in the taxpayer's tax household does not have minimum essential coverage and does not qualify for a coverage exemption, the taxpayer will need to make an SRP when filing his or her Federal income tax return.
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 receive assistance when they believe their tax issue cannot be handled online or by telephone or when they want face-to-face assistance.
Volunteer Program	Includes the Volunteer Income Tax Assistance Program, including the Volunteer Income Tax Assistance Grant Program and the Tax Counseling for the Elderly Program. The Volunteer Program provides free tax assistance to persons with low-to-moderate income (generally defined as within the EITC threshold), senior citizens, persons with disabilities, rural, those with limited English proficiency, and Native Americans.

Appendix VI

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

NOV 2 6 2018

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Results of the 2018 Filing Season (Audit # 201840004)

Thank you for the opportunity to review and provide comments on the subject draft report. We appreciate your acknowledgement of the successful delivery of the 2018 filing season and recognition that it was accomplished while implementing significant legislative changes. In addition to assisting taxpayers affected by natural disasters that occurred in 2017, and for whom Congress enacted relief provisions in September 2017[1], we also re-implemented administration of tax provisions that had previously expired at the end of 2016 but were retroactively restored for tax year 2017 on February 9, 2018[2], almost two weeks after the filing season had begun. Further, as normal filing season operations were underway, we also devoted significant resources to planning and preparation activities to implement major changes associated with the tax reform legislation, commonly known as the Tax Cuts and Jobs Act[3], that will affect the 2019 filing season.

During this filing season, through October 19, 2018, we have processed over 153 million individual income tax returns and issued almost 111 million refunds totaling nearly $313 billion. For the fiscal year ending September 30, 2018, we provided assistance to taxpayers through 45.5 million customer contacts, which is comprised of services provided over the telephones, through correspondence, and face-to-face interactions. This is an increase of almost 1.5 million contacts over fiscal year 2017. We attribute this to sustained funding of the Taxpayer Services appropriation, which permits us to plan for the projected demand for customer services and adequately staff our

[1] Disaster Tax Relief and Airport and Airway Extension Act of 2017, Pub. L. No. 115-63, 131 Stat. 1168 (Sept. 29, 2017).
[2] Bipartisan Budget Act of 2018, Pub. L. No. 115-123, 132 Stat. 64 (Feb. 9, 2018).
[3] AN ACT to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, 115-97, 131 Stat. 2054 (Dec. 22, 2017).

2

service-providing functions. We also note that steps taken in previous years, such as raising awareness to our suite of online service options and implementing an appointment scheduling tool for face-to-face assistance at Taxpayer Assistance Centers has provided for more taxpayers to receive service in automated channels, allowing us to redistribute resources to provide personal assistance to those taxpayers with the more complex issues who need personal assistance for resolution.

Challenges associated with the enactment of late or retroactive legislation include the need to make guidance available to taxpayers and to update our administrative procedures, where applicable. Recognizing that legislative changes may occur after documents have been published and released, instructions and publications include a "Future Developments" section that directs taxpayers to IRS.gov, where new or revised information pertaining to affected topics is posted. In response to passage of the Bipartisan Budget Act of 2018, on February 9, 2018, which occurred after release and distribution of the forms, instructions, and publications that addressed the retroactively reinstated tax provisions, we created over 500 pages of content on IRS.gov to explain the legislative changes, how they impacted the published information, and provided updated guidance. We also updated administrative procedures and instructions for our employees processing tax returns and assisting taxpayers. A small number of returns were affected by incorrect processing of claims for the Earned Income Tax Credit. We are reviewing those accounts and correcting them accordingly.

The Identity Protection Personal Identification Number (IP PIN) program was implemented as a protective measure in the prevention of refund fraud through identity theft. Individuals whose identities have been compromised and have authenticated themselves as the true taxpayers may be issued IP PINs to be included on their tax returns. This provides increased assurance that returns received from previous victims of identity theft were filed by the correct individuals. We agree with the recommendation to expand the IP PIN program to include those individuals who are ineligible for Social Security Numbers (SSNs) and must, instead, file their returns with an Individual Taxpayer Identification Number (ITIN) assigned by the IRS. The program will be modified to permit eligible ITIN holders to request participation. We do not agree with the recommendation to automatically issue IP PINs to ITIN holders who have not obtained employment through the improper use of another's SSN; however, any eligible individual within this subset of the ITIN population will be able to request participation in the program. We agree with the reported estimated outcome measures.

Attached are our comments and proposed actions to your recommendations. If you have any questions, please contact me, or a member of your staff may contact James P. Clifford, Director, Customer Account Services, Wage and Investment Division, at (470) 639-2716.

Attachment

Attachment

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1
Ensure that the 1,128 accounts that did not receive the correct amount of the EITC and the 411 accounts that claimed the ACTC are reviewed and that taxpayers receive the proper amount of the credit to which they are entitled.

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

IMPLEMENTATION DATE
January 15, 2019

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 2
Expand the IP PIN opt-in program to allow ITIN holders who are not automatically issued an IP PIN the option to obtain an IP PIN. The IRS should notify these individuals of the option to obtain an IP PIN and provide instructions on how to do so.

CORRECTIVE ACTION
We agree with this recommendation. The Identity Protection Personal Identification Number (IP PIN) program will be expanded to allow ITIN holders whose identities have been compromised to participate. The program modification will require programming to our automated systems. We expect these changes will be implemented by January 2020; however, Information Technology resources are limited and are subject to competing priorities that could affect implementation. Consequently, we cannot provide an implementation date.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
Director, Accounts Management, Customer Account Services, Wage and Investment Division

2

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

RECOMMENDATION 3
Revise processes for issuing an IP PIN so that an IP PIN is automatically issued to ITIN holders who are confirmed victims of identity theft who are not working under someone else's SSN.

CORRECTIVE ACTION
We partially agree with this recommendation. As stated previously, we will modify the IP PIN program to expand participation eligibility to taxpayers filing under Individual Taxpayer Identification Numbers (ITINs) who are confirmed victims of identity theft; however, we do not believe automatic assignment of IP PINs is prudent at this time. Eligible individuals within the ITIN population, who are not improperly using another person's Social Security Number to obtain employment, will have the ability to request participation in the program under the corrective actions we are taking for Recommendation 2. We do not agree an additional corrective action is necessary.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A