

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Processing of Recovery Rebate Credit Claims During the 2022 Filing Season

August 24, 2023

Report Number: 2023-47-056

HIGHLIGHTS: Processing of Recovery Rebate Credit Claims During the 2022 Filing Season

Final Audit Report issued on August 24, 2023

Report Number 2023-47-056

Why TIGTA Did This Audit

This audit was initiated to assess the IRS's processing of Recovery Rebate Credit claims during the 2022 Filing Season.

The American Rescue Plan Act of 2021 created a third Recovery Rebate Credit of up to \$1,400 per eligible individual for Tax Year 2021. The legislation also directed the IRS to make advance payments of the credit (referred to as advance Recovery Rebate Credit payments or Economic Impact Payments). Taxpayers who claim the Recovery Rebate Credit on their Tax Year 2021 returns must reduce the credit by any advance payment they received.


Impact on Tax Administration

As of May 5, 2022, the IRS processed 17.8 million tax returns with Recovery Rebate Credit claims totaling \$33 billion.

Prior reviews of the IRS's implementation of the Recovery Rebate Credit found that the IRS's calculation of the amount individuals are entitled to receive is highly accurate. However, these reviews also identified significant payments to potentially ineligible individuals and a large number of potentially eligible individuals who had not received an advance payment or Recovery Rebate Credit.

What TIGTA Found

The IRS correctly calculated the allowable Recovery Rebate Credit for 99.7 percent of the Tax Year 2021 tax returns that claimed a credit as of May 5, 2022. In addition, the IRS's tax return validation processes ensured that taxpayers received the Recovery Rebate Credit they were entitled on 98.3 percent of the returns.

ACCURACY
The IRS's tax return
validation processes ensured
taxpayers received the RRC
they were entitled on
 **98.3% of returns.**

However, erroneous payments continue to be significant. Of the 17.8 million returns reviewed, 316,425 (1.7 percent) returns received an incorrect Recovery Rebate Credit. These include:

- 52,297 returns with payments totaling \$99.4 million in which the IRS's calculation of the Recovery Rebate Credit amount was incorrect.
- 264,128 returns with payments totaling \$369.3 million that were issued to potentially ineligible dependents, nonresidents, and residents of a U.S. Territory.

In addition, some eligible individuals still have not claimed a Recovery Rebate Credit despite extensive efforts by the IRS to educate taxpayers on their eligibility for the credit and assist them in filing a return to obtain these credits. TIGTA's review of Tax Year 2021 tax returns identified nearly 3 million individuals who are potentially eligible for \$4.7 billion in Recovery Rebate Credits but have not claimed them.

Finally, the use of advance payment debit cards delayed access to Recovery Rebate Credit funds for 25,146 taxpayers as of October 27, 2022. These taxpayers had \$44 million in Recovery Rebate Credit claims denied because IRS records show the individual received a debit card. However, none of these individuals had activated their card.

What TIGTA Recommended

TIGTA made four recommendations to the IRS that included reviewing payments issued to potentially ineligible individuals and sending a letter to the potentially eligible individuals associated with the nearly 3 million individuals TIGTA identified encouraging them to amend their Tax Year 2021 return and claim the credit if eligible.

The IRS agreed with one of the four recommendations. The IRS did not agree to revise the Tax Tip and related Frequently Asked Questions or to review the 274,865 individuals who received a potentially erroneous Recovery Rebate Credit.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20024

August 24, 2023

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

Heather Hill

FROM: Heather M. Hill
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Processing of Recovery Rebate Credit Claims
During the 2022 Filing Season (Audit # 202240702)

This report represents the results of our review to assess the processing of Recovery Rebate Credit (RRC) claims during the 2022 Filing Season, including ensuring that taxpayers properly reconciled advanced RRC payments received during Calendar Year 2021. This review is part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management and performance challenge of *Administering Tax Law Changes*.

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

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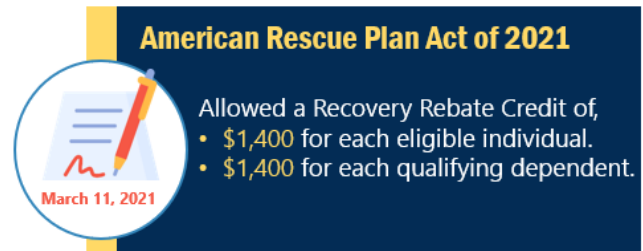
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Background

The American Rescue Plan Act of 2021 (ARPA), signed into law on March 11, 2021, created a third Recovery Rebate Credit (RRC) of up to \$1,400 per eligible individual for Tax Year 2021.¹ While several of the eligibility requirements for the ARPA RRC are the same as previously enacted credits, there are some notable differences. The credit amount was increased to \$1,400 for each eligible taxpayer and \$1,400 for each qualifying dependent. In addition, the ARPA significantly lowered the income phase out limits and expanded eligibility to include all dependents regardless of age. The ARPA also allowed taxpayers with an Individual Taxpayer Identification Number to claim the RRC for their dependents who have a valid Social Security Number. In addition to the income requirements, individuals:



- Must be a U.S. citizen or resident alien.
- Cannot be claimed as a dependent on someone else's Federal income tax return.

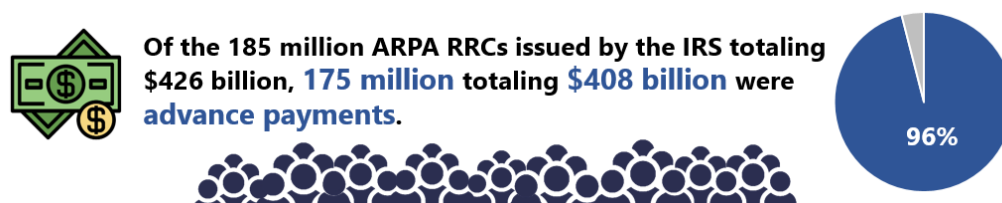
A comparison of the major provisions in the previously enacted RRCs and the ARPA RRC is presented in Appendix III.

Advance payment of the RRC

The legislation also directed the Internal Revenue Service (IRS) to make advance payments of the RRC (referred to as advance RRC payments or Economic Impact Payments) as soon as possible but not later than December 31, 2021. The IRS was authorized to use an individual's Tax Year 2020 return to determine eligibility for the purpose of issuing an advance RRC payment. The IRS could also use the taxpayer's Tax Year 2019 return if the Tax Year 2020 return had not been filed yet. However, the IRS was directed to reevaluate the taxpayer's eligibility once their Tax Year 2020 return was filed and issue the taxpayer any additional advance payment they may be eligible to receive. The IRS refers to these additional payments as plus-up payments. The IRS began issuing advance RRC payments on March 11, 2021, the same day the ARPA was enacted. Figure 1 provides the number of ARPA RRCs issued as an advance payment and claimed on a Tax Year 2021 tax return.

¹ Pub. L. No. 117-2, 135 Stat. 4 (codified in scattered sections of 7, 12, 15, 19, 20, 26, 29, 42 and 45 U.S.C.).

Figure 1: ARPA RRCs Issued



Source: Treasury Inspector General for Tax Administration (TIGTA) analyses of IRS data. ARPA advance RRC payments issued as of September 16, 2021, and Tax Year 2021 RRCs issued as of October 27, 2022.

Claiming the RRC

The RRC is a refundable tax credit claimed on Line 30 of Form 1040, *U.S. Individual Income Tax Return*. Individuals must reduce the RRC they are eligible to receive by the amount of any advance payments received. The IRS refers to this process as reconciling the advance payments. Taxpayers use a worksheet included in the Form 1040 instructions to reconcile their advance payments and determine the RRC they can claim on their tax return. Individuals who are eligible for an RRC that is more than the individual's advance payment can claim the difference as an RRC on their tax return. Those whose advance payment was more than the RRC they are eligible for do not have to repay the difference. The RRC will be included in the taxpayer's refund or used to offset any tax owed. Similar to Filing Season 2021, the IRS exercised its discretion to not offset the RRC to unpaid Federal prior year tax debt. However, the RRC will still be offset to other unpaid Federal debt, such as child support. Figure 2 shows where taxpayers claim the RRC on the Form 1040.

Figure 2: Tax Year 2021 Form 1040, Page 2

21	Add lines 19 and 20	21	
22	Subtract line 21 from line 18. If zero or less, enter -0-	22	
23	Other taxes, including self-employment tax, from Schedule 2, line 21	23	
24	Add lines 22 and 23. This is your total tax ▶	24	
25	Federal income tax withheld from:		
a	Form(s) W-2	25a	
b	Form(s) 1099	25b	
c	Other forms (see instructions)	25c	
d	Add lines 25a through 25c	25d	
26	2021 estimated tax payments and amount applied from 2020 return	26	
27a	Earned income credit (EIC)	27a	
	Check here if you were born after January 1, 1998, and before January 2, 2004, and you satisfy all the other requirements for taxpayers who are at least age 18, to claim the EIC. See instructions ▶ <input type="checkbox"/>		
b	Nontaxable combat pay election	27b	
c	Prior year (2019) earned income	27c	
28	Refundable child tax credit or additional child tax credit from Schedule 8812	28	
29	American opportunity credit from Form 8863, line 8	29	
30	Recovery rebate credit. See instructions	30	
31	Amount from Schedule 3, line 15	31	
32	Add lines 27a and 28 through 31. These are your total other payments and refundable credits ▶	32	
33	Add lines 25d, 26, and 32. These are your total payments ▶	33	

If you have a qualifying child, attach Sch. EIC.

Source: IRS.gov, Tax Year 2021 Form 1040.

Verification of RRC claims

IRS computer programming uses the advance RRC payment information recorded in the taxpayer's tax account and information on the tax return to calculate the taxpayer's allowable Tax Year 2021 RRC. Tax returns with a discrepancy between the RRC claimed on the tax return and the RRC computed by the IRS are sent to the Error Resolution System (ERS) for verification. In response to our previous recommendation, the IRS implemented an automated Error Resolution correction tool, called FixERS, for the 2022 Filing Season that shortens the time needed to resolve certain taxpayer errors and reduces the risk of IRS employee error.² This tool systemically replaces the steps an IRS Error Resolution employee would take to resolve the identified tax return errors.

While the FixERS tool has enabled the IRS to reduce the time needed to resolve tax return errors considerably, the use of the tool is currently limited to electronically filed tax returns. In addition, not all RRC errors on electronically filed returns can be resolved by the FixERS tool. Electronically filed returns that cannot be resolved by FixERS and paper-filed tax returns continue to be worked manually. Once a return is identified for manual review, an ERS tax examiner verifies the allowable RRC and compares that amount to the RRC claimed on the tax return. If there is still a discrepancy between the IRS's calculation and the amount claimed, the ERS tax examiner will disallow the amount of RRC in question, and the taxpayer will be sent a notice explaining why their claim was denied.

Overview of the implementation of the RRC – Calendar Years 2020 through 2022

The IRS began issuing the first advance RRC payments on April 10, 2020, two weeks after the Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted.³ Advance payments authorized under the Consolidated Appropriations Act, 2021 (CAA) began two days after the legislation was enacted,⁴ and advance ARPA payments began on March 11, 2021, the same day the ARPA was enacted. Appendix IV provides a detailed timeline of the IRS's issuance of the RRC under the CARES Act, the CAA, and the ARPA, including the issuance of advance payments.

TIGTA has issued three prior reports regarding the IRS's implementation of the RRC.

- Report No. 2021-46-034, *Implementation of Economic Impact Payments* (May 2021).
- Report No. 2022-47-030, *American Rescue Plan Act: Implementation of Advance Recovery Rebate Credit Payments* (March 2022).
- Report No. 2022-46-032, *Processing of Recovery Rebate Credit Claims During the 2021 Filing Season* (May 2022).


Figure 3 shows the total RRC, including advance payments, issued by the IRS at the time we conducted our reviews.

² TIGTA, Report No. 2022-46-032, *Processing of Recovery Rebate Credit Claims During the 2021 Filing Season* (May 2022) and TIGTA, Report No. 2023-40-021, *Results of the 2022 Filing Season* (Mar. 2023).

³ Pub. L. No. 116-136, 134 Stat. 281 (codified as amended in scattered sections of 2, 5, 12, 15, 20, 21, 29, 42, and 45 U.S.C.).

⁴ Pub. L. No. 116-260, 134 Stat. 1182.

Figure 3: RRCs Issued (Includes Advance Payments)

 Type of Payment	Number	Dollars	TIGTA Report No.
CARES Act Advance RRC Payments	168 million	\$280 billion	2021-46-034
CAA Advance RRC Payments	147 million	\$142 billion	2021-46-034
ARPA Advance RRC Payments	175 million	\$408 billion	2022-47-030
Tax Year 2020 RRC (CARES Act and CAA)	26 million	\$39 billion	2022-46-032
Totals	516 million	\$869 billion	


Source: TIGTA analyses of IRS data. CARES Act advance RRCs issued as of December 31, 2020; CAA advance RRCs issued as of December 29, 2020; ARPA advance RRCs issued as of September 16, 2021; and Tax Year 2020 RRCs issued as of May 27, 2021.

Results of Review

Recovery Rebate Credit Claims Were Processed Accurately; However, Erroneous Payments Continue to Be Significant

We previously reported that the IRS's calculation of the amount of RRC individuals are entitled to receive is highly accurate. The same is true of the IRS's issuance of RRCs on Tax Year 2021 tax returns. As of May 5, 2022, the IRS processed 17.8 million tax returns with RRC claims totaling

ACCURACY
The IRS's tax return validation processes ensured taxpayers received the RRC they were entitled on **98.3% of returns.**



\$33 billion.⁵ Our review found the IRS calculated the correct allowable RRC amount for use in verifying taxpayer claims for 17.7 million (99.7 percent) of these returns.⁶ In addition, the IRS's tax return validation processes ensured that taxpayers received the RRC they were entitled on 17.5 million (98.3 percent) returns.

The remaining 316,425 (1.7 percent) of the 17.8 million tax returns processed as of May 5, 2022, that received an incorrect RRC include:

- 52,297 returns in which the IRS's calculation of the RRC amount was incorrect. These include 17,800 returns in which the calculated RRCs were \$38.8 million more than the taxpayers were entitled to receive, and 34,497 returns in which the calculated RRCs were \$60.6 million less than the taxpayers were entitled to receive.


⁵ Numbers are rounded.

⁶ Number and percentage are rounded.

- 264,128 returns with RRCs totaling \$369.3 million that were issued to potentially ineligible individuals. These include ineligible dependents, nonresidents, and residents of a U.S. Territory. Each tax return may have more than one ineligible condition.

The 52,297 RRC calculation errors occurred because the IRS processed tax returns and advance RRC reversals simultaneously, *e.g.*, an advance RRC payment was reversed at the same time or after the tax return was processed. According to the IRS, a programming error also incorrectly showed some taxpayers as receiving no advance RRC payments. Figure 4 shows the number of ARPA RRCs we identified that were issued to a potentially ineligible individual. A tax return can be included in more than one ineligible category.


Figure 4: ARPA RRC Payments Issued to Potentially Ineligible Individuals

 Individuals Dollars		
Dependents	214,976	\$296.2 million
Nonresidents	59,889	\$88 million
Duplicate U.S. Territory Payments	343	\$819,846

Source: TIGTA analysis of Tax Year 2021 tax returns processed as of May 5, 2022.

Our prior reviews of the IRS's implementation of the RRC also identified significant payments to potentially ineligible individuals, including deceased individuals, dependents, nonresidents, and individuals residing in the U.S. Territories. Figure 5 shows the number of payments TIGTA reported previously as being issued to potentially ineligible individuals.

Figure 5: Payments Issued to Potentially Ineligible Individuals for Calendar Years 2020 to 2022

 Payments Dollars		
CARES Act Advance RRC Payments ⁷	2.2 million	\$1.9 billion
ARPA Advance RRC Payments ⁸	1.1 million	\$1.7 billion
Tax Year 2020 RRC (CARES Act and CAA) ⁹	434,079	\$733 million
Totals	3.7 million	\$4.3 billion

Source: TIGTA analysis of payments issued as of July 16, 2020, May 27, 2021, and September 16, 2021.

As shown in Figure 5, most payments that were issued to ineligible individuals were issued as advance payments. The IRS is not authorized to recover advance ARPA payments that were issued in error.

⁷ TIGTA, Report. No. 2021-46-034, *Implementation of Economic Impact Payments* (May 2021).

⁸ TIGTA, Report. No. 2022-47-030, *American Rescue Plan Act: Implementation of Advance Recovery Rebate Credit Payments* (Mar. 2022).

⁹ TIGTA, Report No. 2022-46-032, *Processing of Recovery Rebate Credit Claims During the 2021 Filing Season* (May 2022).

Payments to ineligible dependents or for the same dependent

The ARPA states that an individual is not eligible for the RRC if they can be claimed as a dependent by someone else. Our review of Tax Year 2021 tax returns processed as of May 5, 2022, identified 135,117 individuals who filed tax returns with potentially erroneous RRCs totaling \$182.1 million associated with ineligible dependents. These include individuals who filed their own tax return and were also claimed on someone else's return, changed their tax return filing status, or claimed a qualifying dependent who was claimed on more than one tax return.

In addition, we identified 79,859 individuals under the age of 25 with RRCs totaling \$114.1 million in which the IRS's data indicate they are potentially someone's dependent, but they were not claimed as a dependent on a Tax Year 2021 tax return. The address on the 79,859 individuals' Tax Year 2021 tax return is the same as the address on the Tax Year 2020 tax return on which they were claimed as a dependent. Most of these individuals also reported less than \$5,000 in income on their Tax Year 2021 tax return, making us question who provided their financial support. In addition, more than one-half (52,679) of the 79,859 individuals attended a college or other post-secondary education program during Tax Year 2021 or are under the age of 17. Based on our analysis, we question whether these individuals could be a dependent as defined by the IRS.¹⁰

Individuals who file their own tax return and can be claimed as a dependent are required to check a box on the Form 1040 notifying the IRS of their dependent status. The IRS relies on this box when processing RRC claims. However, not all individuals who can be claimed as a dependent check the box as required.

IRS management also stated that it is not administratively possible to capture advance RRC payments at the dependent level. Instead, the IRS records half of the total advance payment issued for a Married Filing Joint tax return on each spouse's tax account, *i.e.*, payment for one spouse and half the dependents. As a result, changes in a taxpayer's filing status or how dependents are claimed from year to year can result in erroneous RRC payments. The following hypothetical example illustrates how a change in filing status from year to year can result in the issuance of the RRC for an ineligible dependent.

Taxpayer A received an advance RRC payment for their self, their spouse, and two children based on their Tax Year 2020 Married Filing Joint return. The IRS recorded half of the total advance RRC payment issued on Taxpayer A's tax account and half on the spouse's tax account, i.e., taxpayer and one child. Taxpayer A files as Head of Household in Tax Year 2021 with the same two children and claims an RRC for one of the children. Because Taxpayer A's tax account shows the taxpayer only received an advance RRC payment for one child, the IRS allowed the RRC for the second child incorrectly.

Finally, COVID Tax Tip 2022-29, *Tips for Parents who Share Custody or Alternate Tax Benefits*, issued on February 23, 2022, incorrectly informed taxpayers who share qualifying dependents

¹⁰ Dependent means qualifying child or qualifying relative. To be considered a qualifying relative, an individual must bear a relationship to the taxpayer or live with the taxpayer all year as a household member, have gross income below a threshold amount (\$4,300 for Tax Year 2021), and provide no more than half of their own support; be a U.S. citizen, national, resident alien, or reside in Canada or Mexico; and generally cannot file a joint tax return. In addition, an individual cannot be claimed as a qualifying child by any other taxpayer. Additional residency and age requirements must be met to be considered a qualifying child.

that they can claim the Tax Year 2021 RRC for their shared dependent regardless of any advance payment the other parent received. Internal Revenue Code § 6428B(f) requires taxpayers to reduce the allowable RRC by any advance payments “made or allowed to the taxpayer” for themselves and their qualifying dependents. There is no exception for shared dependents whose advance payment may have been issued to someone else. In addition, Internal Revenue Code § 6428B(h) states the Secretary of the Treasury shall prescribe regulations or other guidance to ensure to the maximum extent administratively practicable that an individual is not taken into account more than once, including by different taxpayers, or changing filing status or dependent status when determining the amount of the allowable credit. Interestingly, the number of times a particular dependent’s Taxpayer Identification Number was used on the 979 returns we identified with a multiple use dependent Taxpayer Identification Number ranged from two to three tax returns.

Recommendation 1 (E-Mail Alert): On March 14, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of our concerns regarding the accuracy of COVID Tax Tip 2022-29 regarding Internal Revenue Code §§ 6428B(f) and 6428B(h). Specifically, the guidance states incorrectly that taxpayers can claim the RRC for a shared dependent even if the IRS has already made an advance payment for the dependent. We recommended that the IRS revise the Tax Tip and related Frequently Asked Questions, *etc.*, to state that taxpayers who share qualifying dependents are required to reduce the amount of the RRC claimed by the advance payment issued to either parent on behalf of the dependent.

Management’s Response to Alert: IRS management disagreed with our recommendation. IRS management stated that they have no plans to change the text of COVID Tax Tip 2022-29 because it accurately reflects the IRS’s implementation of and programming for the Tax Year 2021 RRC. In addition, management stated that according to the IRS Office of Chief Counsel, the implementation of this programming is consistent with the ARPA. Both the IRS and Chief Counsel acknowledge that, when the Tax Year 2021 RRC was authorized by the ARPA, Congress provided more definitive language about duplicate payments by reason of a change in joint return status or dependent status. However, when granting regulatory authority in Internal Revenue Code § 6428B(h)(2) to prevent duplicate payments, Congress included the caveat of rules being prescribed “to the maximum extent administratively practicable.” IRS management stated that it was not administratively possible to capture dependent-level detail when issuing the advance RRC payments and when processing RRC claims.

Office of Audit Comment: The IRS’s ability to capture dependent-level detail does not exempt the IRS from its responsibility to ensure guidance provided to taxpayers accurately reflects the requirements contained in the ARPA to reduce the amount of RRC claimed by the advance payments issued for themselves and their dependents, to the extent possible.

Payments to nonresidents

We identified 59,889 tax returns with RRC claims totaling \$88 million that were issued to individuals who are potentially a nonresident alien. The citizenship code associated with these individuals’ Social Security Numbers indicates they are a legal alien authorized to work in the United States. However, these individuals had no Federal Insurance Contributions Act tax

withheld from their wages in Calendar Year 2021, which indicates they are likely not considered a U.S. resident. Certain nonresident aliens are exempt from Federal Insurance Contributions Act taxes based on their visa type, such as nonresident alien students and professors temporarily present in the United States.

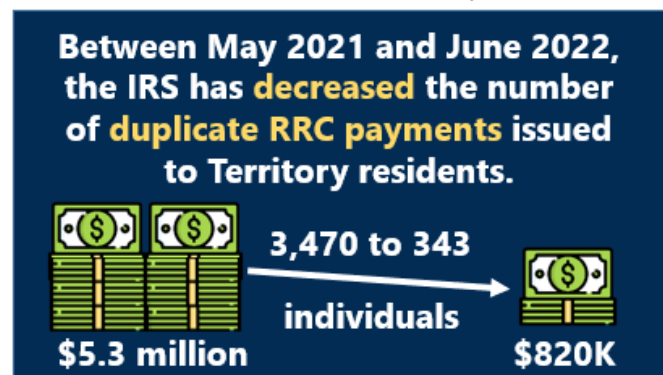
The ARPA states that to be eligible for an advance RRC payment, an individual must be a U.S. citizen or resident alien. The IRS has processes in place to prevent the issuance of the RRC to nonresident aliens who file a Form 1040-NR, *U.S. Nonresident Alien Income Tax Return*. However, as we reported previously, the IRS has no processes to identify nonresident aliens who incorrectly file a Form 1040.¹¹ In addition, our review of IRS processes to identify and prevent individual international taxpayer fraud found that foreign individuals are potentially filing the incorrect tax form to claim tax benefits to which they are not entitled.¹²

IRS management continues to disagree with the method we used to determine whether an individual is potentially a nonresident alien. However, they have yet to offer an alternative methodology to ensure that nonresident aliens are not receiving payments.

Duplicate payments to Territory residents

The number of duplicate RRCs issued to Territory residents for Tax Year 2021 has decreased significantly when compared to payments issued for Tax Year 2020. Our review of Tax Year 2021 returns identified 343 individuals with RRC claims totaling \$819,846 who incorrectly received two RRCs – one from a U.S. Territory and one from the IRS as of June 30, 2022.¹³ By comparison, in May 2022, we reported that 3,470 individuals who appeared on a U.S. Territory report as receiving an RRC from the Territory also filed a Tax Year 2020 return and claimed RRCs totaling more than \$5.3 million as of May 27, 2021.

Individuals who filed these returns also appeared on a U.S. Territory report associated with an RRC issued by a U.S. Territory. Some of these individuals listed a U.S. domestic address on their U.S. tax return used to calculate the RRC, while others listed a U.S. Territory address on their U.S. tax return. The IRS previously established processes to identify IRS advance payments made to individuals with a U.S. Territory address and share such data with the Territories to identify duplicate erroneous payments. In response to our May 2022 recommendation, the IRS agreed to share information that will enable the Territories to recover erroneous RRC issued by the Territories to the extent permitted under the relevant Territory's domestic law.



¹¹ TIGTA, Report No. 2021-46-034, *Implementation of Economic Impact Payments* (May 2021).

¹² TIGTA, Report No. 2021-40-057, *Improvements Are Needed to Identify Potentially Fraudulent Individual International Tax Returns During Processing* (Sept. 2021).

¹³ American Samoa did not provide any reports to the IRS during Calendar Year 2022.

TIGTA previously made recommendations to address RRC payments to ineligible individuals

TIGTA first made recommendations to address advance RRC payments to ineligible individuals in May 2021, in an attempt to prevent future erroneous payments. For example, we recommended that the IRS develop processes to identify ineligible dependents prior to issuing payments. However, IRS management disagreed with our recommendations. IRS management stated that implementing a process to cross-check tax return filings would not guarantee a payment to an unentitled person would be stopped and could harm the rightful individuals by denying the payment to them. In March 2022, and again in May 2022, we reported that these same unaddressed deficiencies continued to result in the issuance of erroneous advance RRC payments and RRCs to ineligible individuals.¹⁴

While the IRS cannot recover erroneously issued advance RRC payments, it can recover erroneous RRCs. In May 2022, we recommended that the IRS recover the erroneous Tax Year 2020 RRCs we identified and conduct analysis to identify and recover additional erroneous credits that were issued after the date our analysis was completed. IRS management again disagreed with our recommendations. Management stated that eligibility for the RRC and the amount allowable is determined from the information individuals provide on their tax return. In addition, management stated that the IRS's post-processing compliance checks analyze all returns and determine who is entitled to claim the dependent, and any associated tax benefits are a question of fact that is addressed under deficiency procedures by its compliance functions.

According to IRS management, only 40 of the 238,680 potentially ineligible individuals with an erroneous Tax Year 2020 RRC payment we recommended that the IRS review were selected for examination as of October 31, 2022.

Recommendation 2: The Commissioner, Wage and Investment Division, should review the 274,865 individuals identified where the IRS issued an RRC to potentially ineligible dependents and nonresidents and take the actions needed to recover payments that are determined to be erroneous.

Management's Response: IRS management disagreed with the recommendation and stated that their post-processing compliance checks are analyzing those returns for potential noncompliance. Returns are being selected for further review based on an assessment of risk, materiality, and prioritization of available resources.


Office of Audit Comment: As noted in the report, according to IRS management, only 40 of the 238,680 potentially ineligible individuals with an erroneous Tax Year 2020 RRC payment we recommended that the IRS review were selected for examination as of October 31, 2022. As such, we continue to believe that other actions are needed to recover potentially erroneous payments.

¹⁴ TIGTA, Report No. 2022-47-030, *American Rescue Plan Act: Implementation of Advance Recovery Rebate Credit Payments* (Mar. 2022) and TIGTA, Report No. 2022-46-032, *Processing of Recovery Rebate Credit Claims During the 2021 Filing Season* (May 2022).

Some Eligible Individuals Still Have Not Claimed a Recovery Rebate Credit

The IRS has taken extensive steps since the enactment of the CARES Act to educate taxpayers on their eligibility for the RRC and assist them in filing a tax return to obtain these credits. However, our review of processed Tax Year 2021 tax returns identified nearly 3 million individuals who have not claimed \$4.7 billion in RRCs they are potentially eligible to receive. Figure 6 shows the number of potentially eligible individuals we identified who had not received an ARPA RRC.


Figure 6: Individuals Who Are Potentially Eligible for ARPA RRC

	Individuals	Dollars
Filed a tax return but did not claim the RRC	2.9 million	\$4.6 billion
Eligible deceased individuals ¹⁵	75,321	\$105.4 million
Totals	3 million	\$4.7 billion

Source: TIGTA analysis of Tax Year 2021 tax returns. Taxpayers who did not claim the credit are as of May 5, 2022. Deceased individuals are as of December 29, 2022.

Our prior reviews of the IRS's implementation of the RRC also identified many potentially eligible individuals who had not received an advance RRC payment or the RRC. Figure 7 shows the number of potentially eligible individuals TIGTA reported previously.

Figure 7: Individuals Who Are Potentially Eligible for the RRC for Calendar Years 2020 to 2022

	Individuals
Tax Year 2020 RRC (CARES Act and the CAA) ¹⁶	10 million
ARPA Advance RRC Payments ¹⁷	644,705
Total	10.6 million

Source: TIGTA analysis of payments issued as of May 27, 2021, and September 16, 2021.

We updated our analysis of the 10.6 million potentially eligible individuals we previously identified to determine how many individuals subsequently received their RRC. Our updated analysis found that 6.1 million individuals still have not filed a Tax Year 2020 or Tax Year 2021 return to claim their RRC, and 3 million individuals filed a Tax Year 2020 return and did not claim their RRC credit. We estimate these individuals are entitled to RRCs totaling \$14 billion. The

¹⁵ The ARPA states that individuals who died in Calendar Year 2021 are eligible to receive the RRC. Includes 22,924 deceased individuals for whom a Tax Year 2021 return was filed but did not claim the RRC, and 52,397 deceased individuals for whom a Tax Year 2021 return was not filed.

¹⁶ TIGTA, Report No. 2022-46-032, *Processing of Recovery Rebate Credit Claims During the 2021 Filing Season* (May 2022).

¹⁷ TIGTA Report. No. 2022-47-030, *American Rescue Plan Act: Implementation of Advance Recovery Rebate Credit Payments* (Mar. 2022).

amount of RRC these individuals are actually entitled to receive cannot be determined until they file a Tax Year 2020 or Tax Year 2021 tax return.

In May 2022, we recommended that the IRS send a letter to the potentially eligible individuals we identified who had not filed a Tax Year 2020 tax return as of May 27, 2021, and encourage them to file a return and claim the RRC if eligible.¹⁸ We also recommended that the IRS proactively give taxpayers the credit who had filed a Tax Year 2020 return and did not claim their RRC credit. IRS management disagreed with our recommendations citing the IRS's widespread communication of the availability of the RRC.

The IRS has taken extensive steps since the enactment of the CARES Act to educate individuals on their eligibility for the RRC and assist them in filing a tax return to obtain their payment. Efforts include establishing a dedicated web page on IRS.gov to provide updated information related to the issuance of advance RRC payments, including a continually evolving list of Frequently Asked Questions; developing an online tool that provides taxpayers with the ability to check the status of their advance RRC payment and submit bank information for taxpayer accounts that do not already contain this information; and coordinating with the Free File Alliance to develop the *NonFilers: Enter Payment Info Here* tool.¹⁹

The IRS also coordinated with the Bureau of the Fiscal Service, the Social Security Administration, and the Department of Veterans Affairs to identify beneficiary recipients along with their direct deposit account numbers, if available, for use in systemically issuing an advance RRC payment without the beneficiary having to file a tax return.²⁰ The IRS coordinated with local community organizations, food banks, and homeless shelters to reach unsheltered individuals and worked with partner groups to reach low-income and underserved communities. In addition, in October 2022, the IRS began sending letters to more than 9 million individuals and families who appear to qualify for a variety of key tax benefits, including the RRC, but did not claim them by filing a Tax Year 2021 tax return.

The use of advance payment debit cards delayed access to RRC funds for some individuals

In May 2022, we reported that the Bureau of the Fiscal Service had issued advance ARPA RRC payments to more than 4.7 million individuals as of September 5, 2021. Individuals must activate their debit card to access their payment. At that time, we raised concerns that the use of debit cards caused unnecessary burden and delayed receipt of RRCs for some taxpayers. Specifically, individuals who have not activated their debit card and claimed the RRC on their tax return. We reported that 75,395 individuals who filed a Tax Year 2020 return as of May 27, 2021, had RRC claims totaling \$77.8 million denied because of an unactivated debit card.

In response to our concerns, IRS management informed us that the Department of the Treasury was continuing to send letters to individuals who were issued a debit card reminding them to contact the third-party debit card issuer activate their card. There are indications that these

¹⁸ TIGTA, Report No. 2022-46-032, *Processing of Recovery Rebate Credit Claims During the 2021 Filing Season* (May 2022).

¹⁹ This tool assists individuals who are eligible to receive an advance RRC payment but do not have a Federal tax return filing requirement.

²⁰ The Bureau of the Fiscal Service is an agency of the U.S. Department of the Treasury that issues payments on behalf of the IRS.

efforts were successful in ensuring that individuals could access their advance RRC payment. For example, the Department of the Treasury sent letters reminding individuals to activate their debit card on March 4, 2021, and 505,697 unactivated CAA advance payment debit cards were subsequently activated.²¹ Finally, in response to our recommendation, the IRS worked with the Bureau of the Fiscal Service to obtain recurring data during Processing Year 2022 to reverse any debit card that had been returned or canceled by the recipient.²²

However, we found that the use of debit cards continued to delay some individuals' access to their Tax Year 2021 RRC. Our review of Tax Year 2021 tax returns processed as of October 27, 2022, identified 25,146 taxpayers who had \$44 million in RRC claims denied because IRS records show the individual received an advance payment debit card. However, none of these individuals had activated their card.

The IRS's recently released Inflation Reduction Act Strategic Operating Plan includes initiatives to better assist individuals who may be eligible for additional tax benefits. These initiatives include notifying taxpayers of additional credits and deductions they may be eligible to receive in addition to those claimed on their tax return. As discussed previously, the IRS has already taken extensive steps to educate and encourage eligible individuals to file a tax return to claim their RRC. Given the estimated \$14 billion in Tax Year 2020 RRCs and \$4.7 billion in Tax Year 2021 RRCs that have not been claimed by eligible individuals, we suggest the IRS continue its efforts to encourage potentially eligible individuals to file a tax return or file an amended return and claim the RRC.

The Commissioner, Wage and Investment Division, should:

Recommendation 3: Continue to periodically issue information on the availability of the RRC and how to claim it through Frequently Asked Questions on IRS.gov, communications with tax return preparers, annual unclaimed refund announcements, *etc.* until the statutory period for taxpayers to file a Tax Year 2020 and 2021 tax return to claim the RRC has expired.

Management's Response: IRS management agreed with the recommendation and will periodically include general information, coinciding with reminders encouraging non-filers to file, about the RRC for those who may be eligible to claim it on their Tax Year 2020 and 2021 returns.

Recommendation 4: Send a letter to the nearly 3 million individuals we identified where the tax return data show the individual is potentially eligible for the RRC encouraging the individuals to amend their Tax Year 2021 return and claim the credit if eligible. The letter should clearly state the eligibility requirements for claiming the RRC in simple terms and direct the individuals to additional resources if needed to assist them in determining whether they are eligible.

Management's Response: IRS management disagreed with the recommendation stating that several initiatives were undertaken as part of their outreach efforts to educate and inform individuals of their eligibility for Economic Impact Payments and subsequently the RRCs. The IRS identified more than 9.3 million potentially eligible families who did not claim benefits such as the Child Tax Credit, Earned Income Tax

²¹ As of March 29, 2021.

²² TIGTA, Report No. 2022-46-032, *Processing of Recovery Rebate Credit Claims During the 2021 Filing Season* (May 2022).

Credit, or RRC. The IRS issued Letter 6550, *End of Season Outreach*, in English and Spanish to these families advising that they may be eligible for other Federal benefits and that claiming the credits had no effect on their immigration status. To help taxpayers claim these benefits, the IRS kept the IRS Free File Program open for an additional month, until November 17, 2022, for eligible taxpayers to file a tax return electronically. The IRS also widely communicated the need to file tax returns for Tax Year 2021 to claim the RRC and, if it was not claimed on an original filing, that taxpayers may still claim it by filing an amended return.

Office of Audit Comment: Although IRS management did not agree to mail a letter to the potentially eligible individuals we identified, they did agree, in response to Recommendation 3, to include general information about the RRC in periodic reminders for those who may be eligible to claim the RRC on their Tax Year 2020 and 2021 tax returns. We believe this action is sufficient considering the IRS's prior efforts to notify eligible individuals about the credit and how to claim it.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the processing of RRC claims during the 2022 Filing Season, including ensuring that taxpayers properly reconciled advanced RRC payments received during Calendar Year 2021. To accomplish our objective, we:

- Assessed the IRS's outreach and assistance to individuals regarding the RRC.
- Ensured that Tax Year 2021 tax returns with an RRC claim were processed correctly.
- Ensured that the RRC amount computed by the IRS was accurate.
- Ensured that eligible individuals who did not receive their advance ARPA RRC payment received the correct RRC amount.
- Determined whether IRS processes prevented the issuance of RRCs to ineligible individuals.

Performance of This Review

This review was performed with information obtained from the Large Business and International Division in Washington D.C.; Return Integrity and Compliance Services function in Atlanta, Georgia; and the Wage and Investment Division Submission Processing function office in Covington, Kentucky, during the period March 2022 through May 2023. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Russell P. Martin, Deputy Inspector General for Inspections and Evaluations; Diana M. Tengesdal, Assistant Inspector General for Audit (Returns Processing and Account Services); Deann L. Baiza, Director; Jane G. Lee, Audit Manager; Briane K. Hamaoka, Senior Auditor; and Tracy L. Winfield, Auditor.

Validity and Reliability of Data From Computer-Based Systems

During this review, we obtained extracts from the Individual Master File; Generalized Mainline Framework, Error Resolution files for Tax Year 2021; Individual Master File for Tax Years 2020 and 2021; Individual Return Transaction File for Processing Years 2021 and 2022; Information Returns Master File for Tax Year 2021; Individual Master File Refund Files; and the National Account Profile for Processing Year 2022 that were available on the TIGTA Data Center Warehouse. We also obtained data from the IRS, which detailed the specific individuals who were issued an advance RRC payment by a U.S. Territory from January 1, 2022, through June 30, 2022. Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected random samples of each extract and verified that the data in

the extracts were the same as the data captured in the Integrated Data Retrieval System.¹ We also performed analysis to ensure the validity and reasonableness of our data, such as ranges of dollar values and obvious invalid values. Based on the results of our tests, we believe that the data used in our review were reliable.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They also 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 and controlling program operations for the issuance of the RRCs. We evaluated these controls by meeting with IRS management, reviewing IRS procedures, and reviewing IRS reports.

¹ We used a random number generator to select our samples for use to determine whether the extract information could be relied upon in conducting our testing.

Appendix II

Outcome Measures

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

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; 192,939 individuals incorrectly allowed more than \$265 million in the RRCs associated with ineligible dependents (see Recommendation 2).

Methodology Used to Measure the Reported Benefit:

We obtained extracts from the Individual Master File for Tax Years 2020 and 2021. We also obtained extracts from the Individual Return Transaction File for Processing Year 2022 as of May 5, 2022.

Our computer analysis of Tax Year 2021 tax returns that were processed as of May 5, 2022, identified 214,976 individuals who filed tax returns with potentially erroneous RRCs totaling \$296,190,918 in which the individual who filed the return is an ineligible dependent or claimed a dependent for a duplicate RRC. To be conservative, we removed duplicate tax returns and returns that appeared in multiple populations to arrive at 192,939 individuals who were allowed \$265,207,818 more in RRCs than entitled. These include:

Figure 1: ARPA RRC Payments Issued to Potentially Ineligible Dependents

	Individuals	Dollars
Individuals claimed as a dependent on someone else's tax return and dependent checkbox not checked	88,209	\$123,467,755
Individuals who are potentially the dependent of another taxpayer	68,898	\$98,710,478
Joint filers who received an advance RRC payment for a dependent and received an RRC on their Tax Year 2021 return for the same dependent under a different filing status	34,970	\$41,832,585
Dependents claimed on more than one tax return	862	\$1,197,000
Totals	192,939	\$265,207,818

Source: TIGTA analysis of Tax Year 2021 tax returns processed as of May 5, 2022.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; 59,694 individuals incorrectly allowed \$87.7 million in the RRCs because the IRS does not have processes to identify and prevent nonresident aliens from filing Form 1040 (see Recommendation 2).

Methodology Used to Measure the Reported Benefit:

We obtained extracts from the Individual Master File for Tax Year 2021; the Individual Return Transaction File for Processing Year 2022 as of May 5, 2022; and the Information Returns Master File for Tax Year 2021 as of September 1, 2022.

Our computer analysis of Tax Year 2021 tax returns that were processed as of May 5, 2022, identified 59,889 returns with the RRCs totaling \$88,009,405 issued to potential nonresident aliens. To be conservative, we removed duplicate tax returns and returns that appeared in multiple populations to arrive at 59,694 individuals who potentially were issued \$87,708,005 more in the RRCs than entitled.

IRS management disagreed with the method we used to determine whether an individual is potentially a nonresident alien but continues to offer no alternative methodology to ensure that nonresident aliens are not receiving payments.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 75,321 individuals who died in Calendar Year 2021 and are potentially eligible for the RRC totaling \$105.4 million but did not claim the credit on their Tax Year 2021 return (see Recommendation 3).

Methodology Used to Measure the Reported Benefit:

We obtained extracts from the Individual Master File for Tax Year 2021; the Individual Return Transaction File for Processing Year 2022; and the National Account Profile for Processing Year 2022 as of December 29, 2022.

Our computer analysis of tax returns that were processed as of December 29, 2022, identified 75,321 individuals who died in Calendar Year 2021 and are potentially eligible for the RRC. The actual amount of the RRC these individuals are entitled to receive is dependent on each taxpayer's circumstances and will not be known until the taxpayer files a Tax Year 2021 tax return and claims the RRC. According to the ARPA, each eligible individual can receive up to \$1,400, we estimated that these deceased individuals are potentially eligible for \$105,449,400 ($75,321 \times \$1,400 = \$105,449,400$) in the RRC.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 2.9 million individuals who are potentially eligible for the RRC totaling \$4.6 billion but did not claim the credit on their Tax Year 2021 return (see Recommendation 4).

Methodology Used to Measure the Reported Benefit:

We obtained extracts from the Individual Master File for Tax Year 2021 and the Individual Return Transaction File for Processing Year 2022 as of May 5, 2022.

Our computer analysis of tax returns that were processed as of May 5, 2022, identified 2,927,919 individuals who are potentially eligible for the RRC but did not claim the credit on their Tax Year 2021 return. To be conservative, we removed 11,180 individuals who are also included in the 75,321 individuals in the previous measure who were deceased in Calendar Year 2021. We arrived at 2,916,739 individuals who are potentially eligible. The actual amount

of the RRC these individuals are entitled to receive is dependent on each taxpayer's circumstances and will not be known until the taxpayer files an amended tax return to claim the RRC. Based on the information reported on these individuals' Tax Year 2021 tax return, they are potentially eligible to receive \$4,615,415,584 in the RRC.

Appendix III

Comparison of Recovery Rebate Credit Eligibility Requirements

The ARPA created a third RRC. Figure 1 provides a comparison of the eligibility requirements for each of the individual RRCs enacted since March 2020.

Figure 1: Comparison of Major Provisions of the First, Second, and Third RRC

	CARES Act	CAA	ARPA
Payment Amount	\$1,200 individual. \$2,400 married joint filers. Additional \$500 for each qualifying child.	\$600 individual. \$1,200 married joint filers. Additional \$600 for each qualifying child.	\$1,400 individual. \$2,800 married joint filers. Additional \$1,400 for each dependent, including older children and adult dependents.
Phase-Out	Total payment amount phased out by 5 percent of AGI over the following thresholds: \$75,000 Single. \$112,500 Head of Household. \$150,000 Married Filing Joint and Qualifying Widower.	Total payment amount phased out by 5 percent of AGI over the following thresholds: \$75,000 Single. \$112,500 Head of Household. \$150,000 Married Filing Joint and Qualifying Widower.	Total payment phases out ratably between the following income levels: \$75,000 - \$80,000 Single. \$112,500 - \$120,000 Head of Household. \$150,000 - \$160,000 Married Filing Joint and Qualifying Widower.
Eligibility	Everyone except: Nonresident aliens. Dependents of other taxpayers. Estates and trusts.	Everyone except: Nonresident aliens. Dependents of other individuals. Estates and trusts. Individuals who died before January 1, 2020.	Everyone except: Nonresident aliens. Dependents of other individuals. Estates and trusts. Individuals who died before January 1, 2021.

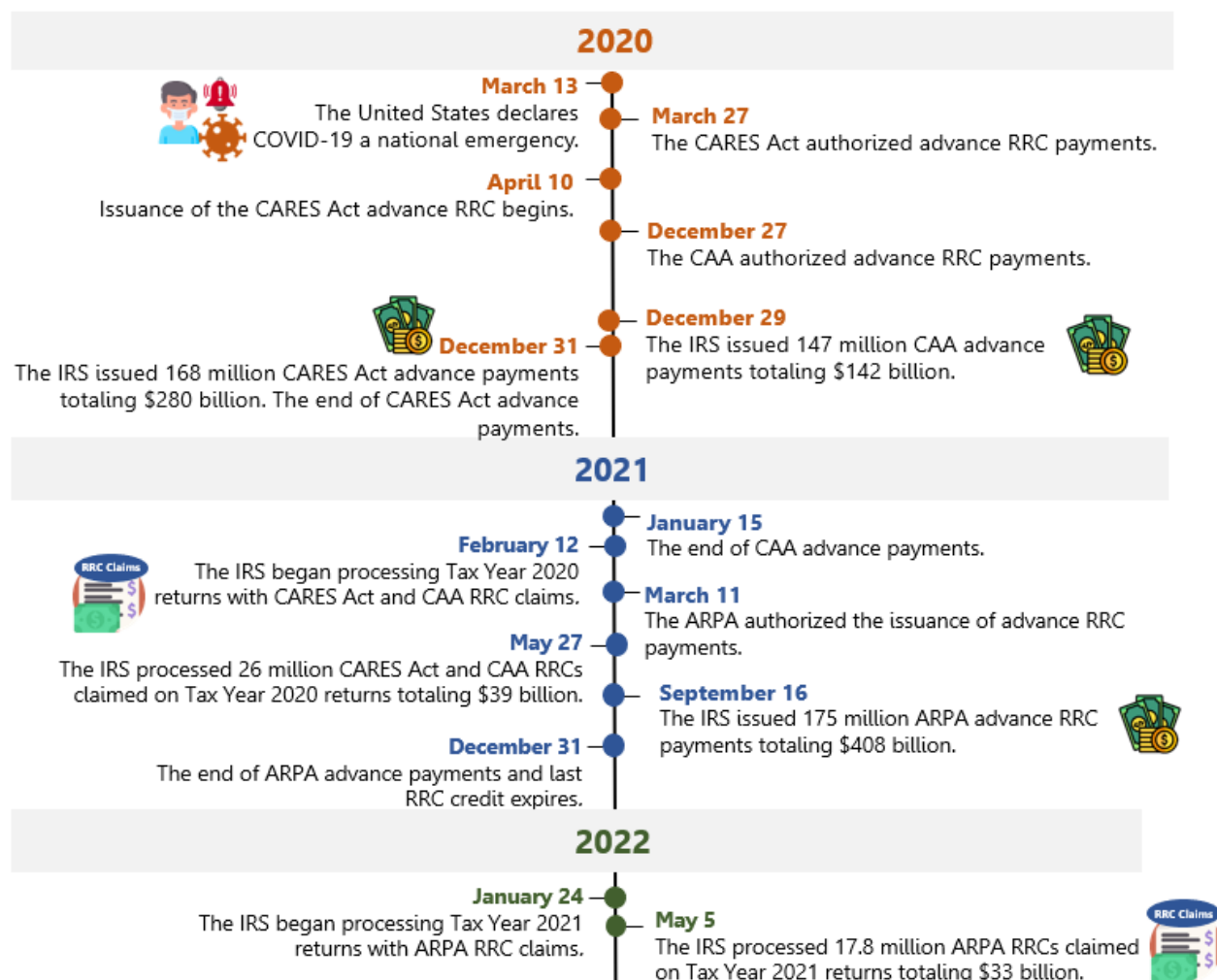
Source: TIGTA's analysis of the various RRCs. AGI – Adjusted Gross Income.

Appendix IV

Issuance of Recovery Rebate Credits for Calendar Years 2020 to 2022

The IRS began issuing advance payments of the RRC two weeks after the CARES Act was enacted. The IRS began making advance payments of the second RRC enacted in the CAA just two days after enactment. Advance payments of the third RRC began the same day the ARPA was enacted. Figure 1 shows the timeline of the IRS's issuance of RRCs beginning with enactment of the CARES Act.

Figure 1: Timeline of the Issuance of RRCs



Source: TIGTA's analysis of the various RRCs.

Appendix V

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

August 7, 2023

MEMORANDUM FOR HEATHER M. HILL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Kenneth C. Corbin *Kenneth C. Corbin*
Commissioner, Wage and Investment Division

Digitally signed by Kenneth C.
Corbin
Date: 2023.08.07 14:10:48 -0400

SUBJECT:

Draft Audit Report – Processing of Recovery Rebate Credit
Claims During the 2022 Filing Season (202240702)

Thank you for the opportunity to review and provide comments on the subject draft report. The American Rescue Plan Act of 2021¹ (ARPA), authorized the issuance of a third round of advance payments of the Recovery Rebate Credit (RRC). The advance payments were commonly referred to as Economic Impact Payments (EIPs), and were issued to eligible individuals as determined from their tax year 2019 and/or 2020 filings. Payments of up to \$1,400 per eligible taxpayer and each qualifying dependent, subject to certain income limitations, were issued. We began issuing the EIPs the same day the ARPA was enacted and continued through the end of the 2021 filing season. More than \$409 billion in advance payments were remitted to eligible individuals. Individuals who were not eligible to receive an advance payment based on their 2019 and/or 2020 tax returns but became eligible for a payment, or an increased payment, based on their 2021 circumstances, claimed the RRC on their 2021 tax returns.

To assist taxpayers with the preparation of their 2021 returns, we sent Letter 6475, *Your 2021 Economic Impact Payment(s)*, in January 2022. The letter informed recipients of the amount of EIP paid to them during 2021, reminded them that the payments were not taxable income, and provided instruction on how to claim the additional RRC if they were entitled to a larger amount. We also issued COVID Tax Tip 2022-29, *Tips for Parents who Share Custody or Alternate Tax Benefits*, on February 23, 2022, informing taxpayers of eligibility for qualifying dependents. Those measures contributed to the 99.7 percent accuracy rate for correctly calculating the RRC claims for 2021.

Like the computation of EIPs to eligible individuals, the calculation of the RRC is dependent on the information contained within the four corners of the tax return. As returns are processed, it could not be determined if a dependent was or will be claimed

¹ Pub. L. No. 117-2, March 11, 2021.

in the future on another return. Such an analysis is performed after returns have been processed. The use of a dependent Taxpayer Identification Number on multiple returns is identified and is one factor considered in determining whether an examination should be performed to ascertain the taxpayer entitled to claim the dependent. It is also noteworthy that with the three pieces of legislation authorizing the advance payments, there was an extreme sense of urgency conveyed in issuing them. The timeline for implementing and executing those provisions was compressed to the point where it was administratively not possible to track payments beyond the primary and secondary taxpayers listed on tax returns. Consequently, we could not capture the portion of payments attributable to individual dependents for use in the RRC reconciliation.

The use of debit cards to distribute advance RRC payments was a new process for the IRS and the Bureau of the Fiscal Service. It avoided delays that would have been associated with printing and mailing millions of additional paper checks. As of July 6, 2023, 97.6 percent of more than 4.7 million cards issued for the third round of EIP have been activated and two years later, cards continue to be activated by recipients. It is misleading to suggest that the debit card program delayed access to individuals' RRC claims. Despite extensive outreach and communication by the IRS, many taxpayers claimed RRC for tax year 2021, even when they received the third EIP by direct deposit, paper check, or debit card. Ineligible claims for the RRC were not unique to taxpayers receiving debit cards.

Our responses to your specific recommendations are enclosed. If you have any questions, please contact me, or a member of your staff may contact Dietra D. Grant, Director, Customer Account Services, at 470-639-3504.

Attachment

Attachment

Recommendations

Recommendation 1 (E-Mail Alert)

On March 14, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of our concerns regarding the accuracy of COVID Tax Tip 2022-29 regarding Internal Revenue Code Sections 6428B(f) and 6428B(h). Specifically, the guidance states incorrectly that taxpayers can claim the RRC for a shared dependent even if the IRS has already made an advance payment for the dependent. We recommended that the IRS revise the Tax Tip and related Frequently Asked Questions, etc., to state that taxpayers who share qualifying dependents are required to reduce the amount of the RRC claimed by the advance payment issued to either parent on behalf of the dependent.

CORRECTIVE ACTION

The requested revised language does not address all of the factual scenarios where the issue arises. The IRS cannot revise Tax Topic 2022-29 to adequately address all of those factual scenarios. As is, COVID Tax Tip 2022-29 accurately reflects the IRS's implementation of and programming for the 2021 Recovery Rebate Credit (RRC). According to the IRS Office of Chief Counsel, the implementation of this programming is consistent with the American Rescue Plan Act of 2021¹ (ARPA). Both the IRS and Chief Counsel acknowledge that, when the 2021 RRC was authorized by ARPA, Congress provided more definitive language about duplicate payments by reason of a change in joint return status or dependent status. But when granting regulatory authority to prevent duplicate payments, Congress included the caveat of rules being prescribed "to the maximum extent administratively practicable²." It was administratively not possible to capture dependent-level detail when issuing Economic Impact Payments (EIPs) and when processing RRC claims.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

The Commissioner, Wage and Investment Division, should review the 274,865 individuals identified where the IRS issued an RRC to potentially ineligible dependents

¹ Pub. L. No. 117-2

² Internal Revenue Code § 6428B(h)(2).

2

and nonresidents and take the actions needed to recover payments that are determined to be erroneous.

CORRECTIVE ACTION

Our post-processing compliance checks are analyzing those returns for potential non-compliance. Returns are being selected for further review based on an assessment of risk, materiality, and prioritization of available resources.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 3

Continue to periodically issue information on the availability of the RRC and how to claim it through Frequently Asked Questions on [irs.gov](https://www.irs.gov), communications with tax return preparers, annual unclaimed refund announcements, etc. until the statutory period for taxpayers to file a Tax Year 2020 and 2021 tax return to claim the RRC has expired.

CORRECTIVE ACTION

We will periodically include general information, coinciding with reminders encouraging non-filers to file, about the RRC for those who may be eligible to claim it on their tax year 2020 and 2021 returns.

IMPLEMENTATION DATE

October 15, 2023

RESPONSIBLE OFFICIAL

Director, Communications and Liaison, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 4

Send a letter to the nearly 3 million individuals we identified where the tax return data show the individual is potentially eligible for the RRC encouraging the individuals to amend their Tax Year 2021 return and claim the credit if eligible. The letter should clearly state the eligibility requirements for claiming the RRC in simple terms and direct the individuals to additional resources if needed to assist them in determining whether they are eligible.

CORRECTIVE ACTION

Several initiatives were undertaken as part of our outreach efforts to educate and inform individuals of their eligibility for EIPs and, subsequently, RRCs. We identified more than 9.3 million potentially eligible families who did not claim benefits such as Child Tax Credit, Earned Income Tax Credit, or RRC. We issued Letter 6550, *End of Season Outreach*, in English and Spanish to these families advising that they may be eligible for federal tax benefits and that claiming the credits had no effect on their eligibility for other federal benefits or on their immigration status. To help taxpayers claim these benefits, we kept the IRS Free File program open for an additional month, until November 17, 2022, for eligible taxpayers to file a tax return electronically. We also widely communicated the need to file tax returns for 2021 to claim the RRC and, if it was not claimed on an original filing, that taxpayers may still claim it by filing an amended return.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

Appendix VI

Glossary of Terms

Term	Definition
Individual Master File	The 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	Individual Taxpayer Identification Numbers are issued by the IRS to individuals who are required to have a Taxpayer Identification Number for Federal tax purposes but do not have and are not eligible to receive a Social Security Number.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
National Account Profile	A compilation of selected entity data from various IRS Master Files and the Social Security Administration.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

Appendix VII

Abbreviations

ARPA	American Rescue Plan Act of 2021
CAA	Consolidated Appropriations Act, 2021
CARES	Coronavirus Aid, Relief, and Economic Security
ERS	Error Resolution System
IRS	Internal Revenue Service
RRC	Recovery Rebate Credit
TIGTA	Treasury Inspector General for Tax Administration



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

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

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