



*Implementation of the Health Coverage
Tax Credit Enrollment and Systemic
Advance Monthly Payment Process*

May 22, 2017

Reference Number: 2017-40-033

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

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HIGHLIGHTS

IMPLEMENTATION OF THE HEALTH COVERAGE TAX CREDIT ENROLLMENT AND SYSTEMIC ADVANCE MONTHLY PAYMENT PROCESS

Highlights

Final Report issued on May 22, 2017

Highlights of Reference Number: 2017-40-033 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Health Coverage Tax Credit (HCTC) was established to help certain displaced workers and retirees pay for health insurance. The HCTC is a refundable tax credit that covers 72.5 percent of the cost of qualified health insurance premiums for eligible individuals and qualified family members.

WHY TIGTA DID THE AUDIT

Although the HCTC expired at the end of Calendar Year 2013, the Trade Preferences Extension Act of 2015 (Trade Act) retroactively extended and modified the HCTC through Calendar Year 2019. The overall objective of this review was to assess the effectiveness of the IRS's implementation of an HCTC advance monthly payment system.

WHAT TIGTA FOUND

The Trade Act required the IRS to start providing HCTC advance monthly payments on behalf of eligible applicants starting June 29, 2016. IRS management realized that they would not be able to establish the necessary systems, processes, and procedures to meet this deadline. The IRS implemented an interim manual process to issue HCTC advance monthly payments on behalf of eligible applicants until a systemic process could be established in January 2017. The IRS stated that it issued a total of \$5.8 million in HCTC advance monthly payments on behalf of 1,220 individuals covering the months July 2016 through December 2016.

In addition, the IRS initiated a comprehensive outreach effort to inform taxpayers about the extension and modification of the HCTC advance monthly payment program. This included posting HCTC partner webinars and new content to the IRS public website (www.irs.gov) as well as establishing a dedicated HCTC telephone line for taxpayers to call the IRS and ask questions regarding the status of their application or general questions about claiming the credit.

TIGTA also found that many individuals identified by the Pension Benefit Guaranty Organization as potentially eligible to claim the HCTC in fact do not meet eligibility requirements. Of the 896,213 individuals the Pension Benefit Guaranty Corporation identified as potentially eligible to claim the HCTC on their Tax Year 2015 return, as of December 2015, TIGTA identified that 506,396 (57 percent) individuals had a characteristic that disqualified them from claiming the HCTC.

Finally, the IRS completed actions to establish a permanent HCTC advance monthly payment system. This system includes sending letters to inform individuals that the IRS received their advance monthly payment enrollment packages and to inform them of the IRS's progress in reviewing and processing the packages.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, develop processes and procedures to ensure that individuals meet HCTC eligibility qualifications before adding eligibility indicators to their tax accounts.

IRS management agreed with this recommendation and plans to request programming changes that will perform the requisite automated checks to ensure that taxpayers who do not meet eligibility requirements do not receive eligibility indicators on their tax accounts.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

May 22, 2017

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Implementation of the Health Coverage Tax
Credit Enrollment and Systemic Advance Monthly Payment Process
(Audit # 201640034)

This report presents the results of our review to assess the effectiveness of the Internal Revenue Service's implementation of an Health Coverage Tax Credit advance monthly payment program. This audit is included in our Fiscal Year 2017 Annual Audit Plan and addresses the major management challenge of Implementing the Affordable Care Act and Other Tax Law Changes.

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

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



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Abbreviations

DOL	Department of Labor
HCTC	Health Coverage Tax Credit
IRS	Internal Revenue Service
PBGC	Pension Benefit Guaranty Corporation
TAA	Trade Adjustment Assistance
TPA	Third-Party Administrator



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Background

The *Trade Adjustment Assistance Reform Act of 2002*¹ originally established the Health Coverage Tax Credit (HCTC) to help certain displaced workers and retirees pay for health insurance. The HCTC expired at the end of Calendar Year 2013. However, the *Trade Preferences Extension Act of 2015* (Trade Act)² was enacted on June 29, 2015, and retroactively extended and modified the HCTC through Calendar Year 2019. The HCTC was created to assist workers who lost their jobs due to foreign trade and receive benefits through the Trade Adjustment Assistance (TAA) or Alternative Trade Adjustment Assistance programs³ as well as eligible recipients⁴ of pensions paid by the Pension Benefit Guaranty Corporation (PBGC).

The HCTC makes health coverage more affordable for people who otherwise might not be insured

The HCTC is a refundable tax credit⁵ that covers 72.5 percent of the cost of qualified health insurance premiums for eligible individuals and qualified family members.⁶ Individuals can claim the HCTC in three ways:

- **Annually** – Individuals claim the credit on their tax return by preparing and including Form 8885, *Health Coverage Tax Credit*.
- **Advance Monthly Payment** – This option allows more affordable and accessible health coverage for individuals because a significant percentage of their monthly health insurance premium is subsidized by the Federal Government. Individuals can submit an application to the Internal Revenue Service (IRS) requesting enrollment in the Advance Monthly Payment Option. The IRS reviews their application and enrolls individuals who meet program requirements.

¹ Pub. L. No. 107-210.

² H.R. 1295, Pub. L. No. 114-27.

³ These are individuals who lost their jobs due to imports from or a production shift to certain foreign countries or lost jobs as a result of trade-related layoffs and found new jobs within 26 weeks at lower pay and earn \$50,000 or less in their new jobs.

⁴ These are individuals for whom pensions are paid by the PBGC because their pension plans were terminated when their former employer went bankrupt or experienced severe financial difficulties.

⁵ Refundable tax credit means the taxpayer can receive a refund even if he or she did not owe taxes or earn income.

⁶ A qualified family member is the spouse, or former spouse in the event of a divorce, or a dependent of the PBGC payee or TAA recipient and is enrolled in a qualified health insurance plan.



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- **Combination** – Individuals claim the credit using a combination of claiming the credit on their tax return for a portion of the year and also receiving the benefit of the advance monthly payments for the remaining portion of the year.

The IRS administers the HCTC in partnership with Federal and State agencies and the private health care industry

State workforce agencies, through the U.S. Department of Labor (DOL), and the PBGC are responsible for identifying individuals who are potentially eligible to receive the HCTC. The DOL and the PBGC each provide the IRS with a list of potentially eligible individuals. Figure 1 provides the steps to qualify for HCTC advance monthly payments.

Figure 1: Steps to Qualify for HCTC Advance Monthly Payments

State Workforce Agencies/DOL	PBGC
Worker loses job at Employer A due to imports from or a shift in production to certain foreign countries.	Retiree's pension plan is terminated because Employer B goes bankrupt or experiences other severe financial difficulty.
Employee groups within Employer A petition the DOL for TAA certification.	The PBGC sends the retiree a letter, advising that the PBGC has taken over his or her pension plan.
The DOL certifies petition and notifies the State workforce agency, which obtains names of affected workers from Employer A.	Retiree submits PBGC Form 701, <i>Payee Information Form</i> , to the PBGC within 30 days of receiving the letter from Employer B in order for the PBGC to continue making pension payments.
The State workforce agency notifies workers to apply for TAA benefits.	The PBGC reviews the retiree plan's records to determine the benefit the retiree will receive.
Workers apply for TAA benefits, including the trade readjustment allowance, and enroll in training (or receive a training waiver).	The PBGC takes over the pension plan.
The State workforce agency determines eligibility and sends names of TAA recipients potentially eligible for the HCTC to the IRS's HCTC Program Office (DOL sends daily).	The PBGC identifies and sends names of beneficiaries who are potentially eligible for the HCTC to the IRS's HCTC Program Office (monthly).
Individuals interested in receiving the benefit of advanced monthly payments submit Form 13441-A, <i>Health Coverage Tax Credit Monthly Registration and Update</i> , with required supporting documentation to the IRS to enroll in the program.	
The IRS determines the individual's eligibility to receive HCTC advance monthly payments.	The IRS determines the individuals' eligibility to receive the benefit of HCTC advance monthly payments.

Source: U.S. Government Accountability Office report, GAO-04-1029 (Sept. 2004).



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This review was performed in the HCTC Program Office at the IRS campus in Austin, Texas, during the period July 2016 through January 2017. 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.



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Results of Review

An Interim Process Was Developed to Issue Advance Monthly Payments to Individuals in Calendar Year 2016

The Trade Act required the IRS to start providing HCTC advance monthly payments on behalf of eligible applicants on June 29, 2016. IRS management realized that they would not be able to establish the necessary systems, processes, and procedures to meet this deadline. As such, the IRS implemented an interim process to issue advance monthly payments on behalf of eligible applicants until the replacement systemic process was ready for use in January 2017. The IRS made the first HCTC advance monthly payments in August 2016. The IRS stated that it issued a total of \$5.8 million in advance monthly payments on behalf of 1,220 individuals covering the months July 2016 through December 2016.

The interim process involved the IRS working with Third-Party Administrators⁷ (TPAs) to make insurance premium payments to Health Plan Administrators⁸ on behalf of individuals who requested advance monthly payments. After soliciting interest from 288 TPAs, on June 17, 2016, the IRS entered into a Memorandum of Understanding with three TPAs. The interim process was designed to make payments to providers of qualified health insurance equal to 72.5 percent of the cost of qualified health insurance coverage. The payments were made by the Department of the Treasury directly to the TPA on behalf of each qualified participant who enrolled in the program. Each participant was responsible for paying the remaining 27.5 percent to the TPA. Payments started in August 2016 and included health coverage through December 2016.

The IRS relied on the TPAs to verify participant eligibility for the HCTC. This included ensuring that participants have insurance from a company supported by the TPA. The TPAs maintain their own records of eligibility for each individual. For example, the TPAs collected Form 13441-A from participants and agreed to verify the accuracy and completeness of information in this form. The TPAs were responsible for verifying the applicant's: 1) age; 2) proof of insurance coverage (with dates of coverage); 3) family member insurance coverage; 4) Health Plan Administrator information (*i.e.*, name, phone number, identification number); and

⁷ A TPA is a person or organization that processes insurance claims and performs administrative services in accordance with a service contract, usually related to employee benefits. A TPA handles the administration of the plan, including processing, adjudication, and negotiation of claims; record keeping; and maintenance of the plan.

⁸ A Health Plan Administrator is an entity that provides or pays the cost of medical care and can include an insurance company, or insurance organization, that is licensed to engage in the business of insurance in a State.



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5) monthly premium amounts. If the TPA identified inaccurate information, it was the TPA's responsibility to communicate with the individual to resolve the issue.

Comprehensive Outreach Was Initiated to Inform the Public About the Health Coverage Tax Credit Advance Monthly Payment Program

In addition to establishing its interim HCTC advance monthly payment process, the IRS initiated a comprehensive outreach effort to inform taxpayers who may be eligible about the extension and modification of the HCTC advance monthly payment program. Examples of the IRS's outreach efforts include:

- Notifying the PBGC and DOL on September 11, 2015, about the HCTC being retroactive to Calendar Year 2014.
- Conducting telephone calls and meetings with interested TPAs to help them understand the requirements needed for their participation in the interim advance monthly payment program.
- Releasing an *e-News for Tax Professionals* article on February 19, 2016, advising eligible individuals and families on the correct tax form to file with their tax return to claim the HCTC as well as the necessary documentation required to be attached to show proof of eligibility, proof of coverage, and proof of insurance premium payments.
- Creating the Small Business/Self-Employed Outreach Initiative Database View 536 (*Tax Return Practitioner Outreach*). The database is used by the IRS Communications and Liaison office to provide the public with a summary of Small Business/Self-Employed Initiatives. It contains reference material, key messages, and communication products. For example, HCTC information includes a summary of the HCTC (including its extended legislation through Calendar Year 2019), explains the IRS's partnership with the PBGC and DOL to determine the best way to receive the credit, and instructs individuals to go to www.irs.gov/hctc for information on requirements to claim the HCTC on Tax Years 2014 and 2015 returns.
- Creating an HCTC electronic mailbox. This mailbox was activated in May 2016. The IRS reported that it received the first taxpayer inquiry on June 1, 2016. The HCTC Program Office monitors the mailbox and responds to requests. The IRS received 107 requests as of September 14, 2016. IRS management indicated that the requests were a mix of inquiries about the interim HCTC advance monthly payment program, such as the program's start date.
- Creating a YouTube video that explains claiming the HCTC for Tax Years 2014 and 2015.



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Similar to the above outreach efforts, the IRS also updated its communications to inform potentially eligible individuals of the January 2017 roll-out of its new HCTC advance monthly payment application and systemic monthly issuance process. Examples include:

- Posting HCTC partner webinars on October 28, 2016, that provided to Health Plan Administrators and TPAs the requirements for participating in the Calendar Year 2017 advance monthly payment program and information for the DOL and PBGC.
- Posting new content to the IRS public website (www.irs.gov), including Form 13441-A along with a message informing individuals that on November 14, 2016, they can begin submitting the forms to enroll in the advance monthly payment program.
- Establishing a dedicated HCTC telephone line for taxpayers to call the IRS and ask questions regarding the status of their application or general questions about claiming the credit.
- Developing stakeholder and taxpayer Questions & Answers on the IRS public website. These Questions & Answers addressed enrolling in the Calendar Year 2017 advance monthly payment program, claiming the HCTC on a tax return, and qualified health insurance plans for HCTC eligibility.

Many of the Identified Potentially Eligible Individuals May Not Meet Requirements to Receive or Claim Health Coverage Tax Credits

Our analysis of the 896,213 individuals the PBGC⁹ identified as potentially eligible to claim the HCTC on their Tax Year 2015 return, as of December 2015, identified 506,396 (57 percent) with a characteristic that disqualifies them from claiming the HCTC on their tax return or receiving the benefit of HCTC advance monthly payments. Figure 2 provides these characteristics.

⁹ For Calendar Year 2015, the HCTC indicator list was limited to PBGC-related individuals. The DOL and the State workforce agencies dismantled their HCTC systems when the legislation expired on January 1, 2014. Developing a new system required funding and resources that were not readily available. Therefore, the IRS did not receive a listing from the DOL or State workforce agencies of potentially eligible individuals for Calendar Year 2015.



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**Figure 2: Characteristics of Potentially Eligible
Individuals That Make Them Ineligible for the HCTC**

Ineligible Characteristic	Number
Over 67 years of age ¹⁰	506,004
Deceased ¹¹	11
Listed on Prisoner File for Calendar Year 2015	566
Total	506,581
Unique Individuals With at Least One Characteristic	506,396

Source: Tax Year 2015 National Account Profile¹² data and Return Transaction File data.

To receive the credit, individuals must be enrolled in a qualified health insurance plan. Generally, taxpayers and family members must meet the following requirements:

- Be covered by a qualified health plan for which they pay more than 50 percent of the premium.
- Not be entitled to or enrolled in Medicare Part A, B, or C (hence, not over the age of 65); or enrolled in Medicare but only claiming premiums for qualified family members.
- Not be enrolled in Medicaid or the Children's Health Insurance Program.
- Not be enrolled in the Federal Employee Health Benefits program or eligible to receive benefits under the U.S. military health system.
- Not be imprisoned under Federal, State, or local authority (on the first day of the month seeking to receive the HCTC).
- Not be claimed as a dependent on someone else's tax return.
- Not covered by a Health Insurance Marketplace plan for the full year.

When we discussed our concerns with IRS management, they stated that they will continue to rely on the PBGC and DOL potentially eligible individual lists as well as continue for the 2017 Filing Season to identify individuals claiming the HCTC and review supporting documentation to ensure that taxpayers are eligible to claim the HCTC. However, as our analysis identified, the PBGC and DOL lists do not provide assurance that the individual does

¹⁰ We used the age of 67 for our analysis because while an individual no longer qualifies for the credit once they reach 65 years of age, qualified family members can receive the HCTC for up to 24 months from the event.

¹¹ Deceased prior to January 1, 2013, to allow for the 24 months that a qualified family member is eligible for the HCTC.

¹² The National Account Profile contains IRS and Social Security Administration information for name control, date of birth, and date of death for each Taxpayer Identification Number.



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not have one of the potentially disqualifying characteristics in Figure 2 (e.g., over 67 years old, deceased). For example, management stated they were not aware of individuals on the list who were older than 67 years of age.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should develop processes and procedures to ensure that individuals meet HCTC eligibility qualifications, including age, not deceased, and not incarcerated, before adding eligibility indicators to tax accounts.

Management's Response: The IRS agreed with this recommendation. The IRS responded that it plans to request programming changes that will perform the requisite automated checks to ensure that taxpayers who do not meet eligibility requirements do not receive eligibility indicators on their tax accounts.

The Enrollment and Systemic Advance Monthly Payment System Is in Place

On December 5, 2016, the new HCTC advance monthly payment enrollment team in the Austin Campus started inputting advance monthly payment application information into the IRS's new HCTC database. The Receipt and Control Unit at the Austin Campus is responsible for sorting and routing the HCTC advance monthly payment application enrollment packages to the HCTC Enrollment Team. The HCTC team is responsible for processing the applications, which includes verifying the packages' accuracy and completeness. Upon receipt of the application, the IRS will send the applicant a Letter 5758, *Processing Registration Form*, to inform the taxpayer that their registration form and supporting documentation is being processed. The letter advises that the processing can take up to six weeks.

Once an individual is successfully enrolled, the IRS will send Letter 4545, *HCTC Approval Letter*, to inform the taxpayer that he or she has successfully registered for the HCTC and provides payment and due date information. For applications that cannot be processed, the IRS will issue one of the following letters:

- Letter 4541, *HCTC Candidate Insufficient Documentation Letter*, issued to inform the taxpayer that the HCTC registration could not be completed due to an incomplete Form 13441-A.
- Letter 4540, *HCTC Candidate Eligibility Denial Letter*, issued to inform the taxpayer that Form 13441-A cannot be processed due to missing supporting documents or because the IRS was unable to confirm family member information or eligibility.



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Finally, should the individual, once enrolled, not continue to meet program requirements, the IRS will send Letter 3772, *End of Program Letter*, to inform the taxpayer that he or she is no longer enrolled in the HCTC advance monthly payment program.

A systemic HCTC advance monthly payment process has been established

As part of the IRS systemic advance monthly payment process, the IRS established a lockbox¹³ bank to receive the participants' 27.5 percent medical insurance premium payments. The lockbox bank began processing the first payments for eligible participants on January 3, 2017. To complete this processing, the IRS's HCTC Enrollment Team sends the lockbox bank an automated daily file identifying the individuals enrolled in the advance payment program. The lockbox bank systemically matches the individual's 27.5 percent to the total insurance premium due. If the payment information received in the lockbox matches the IRS's daily enrollment file, the bank sends the file to the IRS's Integrated Financial System by 5 p.m. Central Time daily. On the next business day following the twentieth of each month, starting January 20, 2017, a payment file is transmitted to the Department of the Treasury for payment of the full insurance premium amount to the Health Plan Administrator.

It should be noted that the Integrated Financial System processes any overpayments (more than 27.5 percent of the insurance premium) as a split transaction, processing the correct amount and refunding the overpayment amount back to the participant. The lockbox bank rejects underpayments (less than 27.5 percent of the insurance premium) if the underpayment is equal to or greater than \$1. Figure 3 details the advance monthly payment process.

Figure 3: HCTC Advance Monthly Payment Program

2017 Systemic Process
Individuals mail enrollment package to the IRS's Austin Campus.
The IRS enrollment team updates the Advance Monthly Payment database with eligibility status.
The IRS mails eligible participants an enrollment letter that indicates the payment amount.
Participants send payment of their 27.5 percent share of the premium to the lockbox by the tenth of every month.
The IRS's HCTC Enrollment Team sends an automated daily file to the lockbox identifying the individuals enrolled in the program based on the enrollment forms the IRS receives.

¹³ The lockbox operation involves the processing of tax payments by commercial banks to accelerate the handling and deposit of funds received and forwarded to the Department of the Treasury.



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2017 Systemic Process

The lockbox systemically validates the individual's 27.5 percent received to the 27.5 percent share per the daily file received from the IRS.

The lockbox site transmits a payment file to the IRS Integrated Financial System by 5 p.m. Central Time daily. The IRS Integrated Financial System processes any overpayments (more than 27.5 percent of the insurance premium) as a split transaction, processing the correct amount and refunding the overpayment back to the participant. The lockbox bank rejects underpayments (less than 27.5 percent of the insurance premium) if the underpayment is equal to or greater than \$1.

The Integrated Financial System systemically transmits payment to the Department of the Treasury (on the next business day following the twentieth of every month).

The Department of the Treasury transmits 100 percent of the insurance premium payment to the Health Plan Administrator.

Source: HCTC Program data, Wage and Investment Division.

We plan to continue our coverage of the IRS's HCTC efforts, including assessing the accuracy of their processing of enrollment applications and issuing systemic advance monthly payments. We will also evaluate processes to identify potentially erroneous claims at the time tax returns are processed.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the effectiveness of the IRS's implementation of an HCTC advance monthly payment program. To accomplish this objective, we:

- I. Evaluated the taxpayer participation rate in the HCTC advance monthly payment program and identified the actions taken to ensure that individuals eligible for the HCTC are aware of the advance monthly payment process.
 - A. Identified the number of individuals identified by the PBGC and DOL as potentially eligible in December 2015, compared that number to the number of taxpayers claiming the credit in Tax Year 2015 or participating in the advance monthly payment program in Tax Year 2016, and calculated the participation rate.
 - B. Evaluated the Calendar Year 2010 Department of the Treasury survey addressing participation rates and identified the reasons individuals may not claim the HCTC advance monthly payments.
 - C. Analyzed the list of Tax Year 2015 individuals who are potentially eligible for the HCTC and identified the characteristics that would result in the individuals not being eligible for the credit.
 - D. Assessed the IRS's outreach actions to notify taxpayers and tax return preparers about the HCTC advance monthly payments.
- II. Determined if the HCTC advance monthly payments made as part of the interim process were processed accurately.
 - A. Evaluated the enrollment process after the TPAs provide notification of eligibility to the IRS.
 - B. Evaluated the process for making the HCTC advance monthly payments.
- III. Assessed efforts to implement the new HCTC advance monthly payment enrollment system as well as processes and procedures to ensure that only eligible individuals receive the correct amount of HCTC advance monthly payments.
- IV. Determined if processes and procedures have been established to ensure that only eligible individuals claim HCTC on their Tax Year 2016 tax returns, including processes to ensure that amounts paid in advance on their behalf were correctly reconciled.



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Data validation methodology

During this review, we relied on the HCTC advance monthly payment information provided to us by the IRS and validated the payment data by comparing it to reports produced by the IRS's Chief Financial Officer. We also obtained data from the IRS's Individual Master File,¹ the Individual Return Transaction File,² and the National Account Profile³ that were available on the Treasury Inspector General for Tax Administration's Data Center Warehouse.⁴ Before relying on the data, we selected random samples of each extract and verified that the data in the extracts were the same as the data captured in the IRS's Integrated Data Retrieval System.⁵ We also obtained health insurance tax form data from the Office of Audit's Information Services team. These data were validated in a prior audit and we relied on that validation. Based on the results of our testing, we believe that the data used in our review were reliable.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: processes for ensuring taxpayers' knowledge of and participation in the program, processes for ensuring the accuracy of payments made as part of the interim process, eligibility of individuals participating in the advance monthly payment system, and processes for ensuring the eligibility of individuals claiming the HCTC on their Tax Year 2016 tax returns.

¹ The Individual Master File is an IRS database that maintains transactions or records of individual tax accounts.

² The Individual Return Transaction File contains data transcribed from initial input of the original individual tax returns during tax return processing.

³ The National Account Profile contains IRS and Social Security Administration information for name control, date of birth, and date of death for each Taxpayer Identification Number.

⁴ The Data Center Warehouse is a collection of IRS databases containing various types of taxpayer account information that is maintained by the Treasury Inspector General for Tax Administration for the purpose of analyzing data for ongoing audits.

⁵ IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.



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Appendix II

Major Contributors to This Report

Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services)
Allen Gray, Director
Paula W. Johnson, Audit Manager
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Audrey Graper, Auditor
Laura Robertson, Auditor



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Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Services and Enforcement
Director, Submission Processing, Wage and Investment Division
Director, Office of Audit Coordination



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Appendix IV

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

April 27, 2017

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Implementation of the Health Coverage Tax
Credit Enrollment and Systemic Advance Monthly Payment
Process (Audit # 201640034)

Thank you for the opportunity to review and provide comments on the subject draft report. The *Trade Preferences Extension Act of 2015* (the Act), enacted on June 29, 2015, retroactively extended and modified the Health Coverage Tax Credit (HCTC) to help certain displaced workers and retirees pay for health insurance through Calendar Year 2019. The Act required the IRS to establish a program within one year from the date of enactment for making payments to the providers of qualified health insurance on behalf of certified eligible individuals. The IRS did not receive funding to establish the program. Nevertheless, the required deadline was met by implementing an interim process that began remitting insurance premium payments to the Health Plan Administrators on behalf of qualified individuals. For the coverage months of July 2016 through December 2016, approximately \$5.8 million was paid on behalf of 1,220 qualified individuals. We are pleased to note that your review of the interim process found no occurrences of improper payments being made through the program.

During 2015 and 2016, we developed and, on December 5, 2016, implemented an automated enrollment and advanced monthly payment system that replaces the interim process. This system has the capability of sending letters to inform individuals that the IRS received their advance monthly payment enrollment packages, and to inform them of the IRS's progress in reviewing and processing the applications. Additionally, we engaged a lockbox bank to receive the participants' portion of their health insurance premium payments. This process expedites the processing of remittances by rejecting underpayments back to the remitter and processing overpayments by retaining the correct amount due for insurance coverage and refunding the overpaid portion back to the covered individual.



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As the HCTC program was implemented, we posted educational information on IRS.gov, including webinars hosted by our HCTC partners and new IRS instructional content, and established a dedicated HCTC telephone line for taxpayers to call with questions regarding the status of their applications and/or general inquiries about claiming the credit. We also issued targeted news releases, engaged in outreach activities with tax professionals, implemented an electronic mailbox for receiving taxpayer questions, and posted an explanatory video on YouTube. As a result of IRS's strategic planning, we were able to initiate a comprehensive outreach program to inform taxpayers about the extension and modification of the HCTC advance monthly payment benefit, as acknowledged in the report.

As noted in the report, the HCTC program is administered in partnership with federal and state agencies, as well as stakeholders in the private health care industry. Through the U.S. Department of Labor (DOL) and the Pension Benefit Guaranty Corporation (PBGC), the IRS is provided with lists of individuals who are potentially eligible for advanced health coverage payments. Although the report notes that approximately 57 percent of the potentially eligible individuals provided to us by the PBGC had characteristics that appear to disqualify them from coverage, it is important to note that the IRS does not rely solely on the potentially eligible participant files from the PBGC and DOL when processing and issuing the HCTC payments. The verification process, after ensuring the applicant is listed as potentially eligible, includes verifying age and proof of insurance. For Tax Year 2015, we received lists of approximately one million potentially eligible individuals from the PBGC and the DOL yet, after verifying age and proof of qualified insurance, issued the HCTC to only 18,573 individuals for \$38.12 million. Receiving the files from the PBGC and DOL is just the first step in identifying individuals eligible to claim the HCTC.

In conjunction with developing and implementing the application and payment process, the IRS developed an HCTC Compliance Strategy in 2015 for HCTC claims filed for the 2014 and subsequent tax years. The IRS will not process claims if taxpayers are not identified as eligible and/or have not met the filing requirements. In the 2016 fiscal year, we initiated examinations of almost 9,000 claims where the taxpayers did not establish eligibility. Through the end of October, 2016, our compliance efforts have protected almost \$22 million in unallowable HCTC claims. Additionally, we will use automated filters for the 2017 and subsequent tax years to improve our ability to detect unallowable claims.

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

Attachment



*Implementation of the Health Coverage Tax Credit
Enrollment and Systemic Advance Monthly Payment Process*

Attachment

Recommendation

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should develop processes and procedures to ensure that individuals meet HCTC eligibility qualifications, including age, not deceased, and not incarcerated, before adding eligibility indicators to tax accounts.

CORRECTIVE ACTION

The IRS agrees with the recommendation and will request programming changes that will perform the requisite automated checks to ensure taxpayers that do not meet eligibility requirements do not receive eligibility indicators on their tax accounts. It should be noted however; that under current procedures, claims received by ineligible individuals are stopped by manual verification of age and proof of qualified insurance coverage. Because programming changes are subject to limited resources, budgetary constraints, and competing priorities, we cannot provide an implementation date at this time.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

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