



*Some Legal Requirements to Deactivate
Individual Taxpayer Identification Numbers
Have Not Been Met*

January 29, 2018

Reference Number: 2018-40-011

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HIGHLIGHTS

SOME LEGAL REQUIREMENTS TO DEACTIVATE INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS HAVE NOT BEEN MET

Highlights

Final Report issued on January 29, 2018

Highlights of Reference Number: 2018-40-011 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The IRS issues an Individual Taxpayer Identification Number (ITIN) to individuals who are required to have a Taxpayer Identification Number for tax purposes but do not have and are not eligible to obtain a Social Security Number. As of August 2017, the IRS has issued more than 23.8 million ITINs.

WHY TIGTA DID THE AUDIT

In December 2015, Congress enacted the Protecting Americans from Tax Hikes Act of 2015 (PATH Act), which contains provisions requiring the IRS to deactivate unused ITINs and those issued before a specified date. The overall objective of this review was to determine whether the IRS accurately identified and deactivated ITINs required by the PATH Act.

WHAT TIGTA FOUND

The PATH Act required the IRS to begin deactivating ITINs for non-use on a tax return on December 31, 2015. However, the IRS was unable to modify its ongoing deactivation plans to meet the PATH Act requirement date.

The PATH Act also required the IRS to deactivate ITINs issued prior to January 1, 2008, on January 1, 2017. However, the IRS was unable to determine the issuance date of ITINs assigned prior to Calendar Year 2014. The IRS was also concerned with having sufficient resources to meet the demands of ITIN renewal applications. Therefore, the IRS developed an alternate plan. Based on this alternate schedule, as of January 1, 2017, the IRS deactivated 384,421 ITINs that had not already

been deactivated for non-use. The IRS should have deactivated a total of four million ITINs to comply with PATH Act requirements.

TIGTA's analysis of the more than 23 million ITINs issued as of December 2016 found that the IRS accurately identified and deactivated the majority of the 12.4 million ITINs requiring deactivation. Computer programming errors and inaccurate use identification resulted in the IRS not deactivating 89,105 ITINs which filed 1,298 tax returns as of April 20, 2017. These individuals received \$637,181 in refundable tax credits and did not pay an estimated \$359,127 in tax as a result of erroneous personal tax exemptions. TIGTA also identified 133,054 ITINs that were erroneously deactivated by the IRS.

Finally, IRS processes did not prevent 11,350 deactivated ITINs from being used on 9,818 tax returns as of May 4, 2017. These individuals erroneously received more than \$2.6 million in refundable tax credits and did not pay more than \$2.4 million in tax as a result of erroneous personal tax exemptions.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, modify its deactivation schedule to improve its timeliness in complying with the PATH Act; revise computer programming related to deactivating certain ITINs; revise the methodology used to identify ITINs for deactivation to correct identified errors; deactivate the 89,105 ITINs that should have been deactivated and were not; and review the 11,116 tax returns TIGTA identified to ensure that individuals receive only the benefits to which they are entitled.

The IRS agreed with eight of the 10 recommendations. The IRS disagreed that a revision to its methodology to identify ITINs for deactivation is necessary because there is only a small population of accounts with erroneous deactivations. Manual processes have also been implemented to correct erroneous deactivation conditions. The IRS also did not agree to resume rejecting electronically filed tax returns with inactive ITINs.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

January 29, 2018

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM:

Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Some Legal Requirements to Deactivate
Individual Taxpayer Identification Numbers Have Not Been Met
(Audit # 201640023)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) accurately identified and deactivated those Individual Taxpayer Identification Numbers required by the Protecting Americans from Tax Hikes Act of 2015¹ to be deactivated prior to January 1, 2017. This audit was included in our Fiscal Year 2017 Annual Audit Plan and addresses the major management challenge of Reducing Fraudulent Claims and Improper Payments.

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

Copies of this report are also being sent to the IRS 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).

¹ Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, 129 Stat. 2242 (2015).



*Some Legal Requirements to Deactivate Individual Taxpayer
Identification Numbers Have Not Been Met*

Table of Contents

Background	Page 1
Results of Review	Page 6
Some Legislative Deactivation Requirements Were Not Met	Page 6
Recommendation 1:	Page 9
The Majority of Individual Taxpayer Identification Numbers Were Accurately Identified and Deactivated	Page 9
Recommendations 2 through 4:	Page 11
Recommendation 5:	Page 12
Some Tax Returns Filed With an Inactive Individual Taxpayer Identification Number Were Not Identified During Processing	Page 12
Recommendations 6 through 8:	Page 14
Recommendations 9 and 10:	Page 15
 Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 16
Appendix II – Major Contributors to This Report	Page 19
Appendix III – Report Distribution List	Page 20
Appendix IV – Outcome Measures	Page 21
Appendix V – Internal Revenue Service’s Notification to Congress of the Protecting Americans From Tax Hikes Act of 2015 Deviation	Page 28
Appendix VI – Glossary of Terms	Page 30
Appendix VII – Management’s Response to the Draft Report	Page 32



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Abbreviations

ACTC	Additional Child Tax Credit
AOTC	American Opportunity Tax Credit
e-file(d)	Electronically File(d)
EITC	Earned Income Tax Credit
IRS	Internal Revenue Service
IRTF	Individual Returns Transaction File
ITIN	Individual Taxpayer Identification Number
NAP	National Account Profile
PATH Act	Protecting Americans From Tax Hikes Act of 2015
RTS	Real-Time System
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Background

An Individual Taxpayer Identification Number (ITIN)¹ is issued by the Internal Revenue Service (IRS) to individuals who are required to have a Taxpayer Identification Number (TIN) for tax purposes but do not have and are not eligible to obtain a Social Security Number. An ITIN is formatted like a Social Security Number, *i.e.*, NNN-NN-NNNN; however, ITINs begin with a '9' and have two middle digits ranging from 70-88, 90-92 or 94-99. According to the IRS, the middle two digits of an ITIN generally determine the calendar year in which an ITIN was issued. For example, ITINs with the middle two digits of 78 or 79 were issued between Calendar Years 1996 and 2000. As of August 2017, the IRS has issued more than 23.8 million ITINs.

The Protecting Americans from Tax Hikes Act of 2015 (PATH Act),² was enacted on December 18, 2015, and requires the IRS to deactivate ITINs based on one of the following two conditions.

- **Non-use of an ITIN for three consecutive tax years** – ITINs that are not used³ on a tax return for three consecutive tax years are required to be deactivated (see the following section for an explanation of how the IRS deactivates an ITIN) on the earlier of December 31st of the third consecutive tax year of non-use or December 31, 2015. For example, ITINs that were not used on at least one tax return for Tax Years 2012, 2013, and 2014 were required to be deactivated December 31, 2015. Figure 1 provides examples of the required deactivation dates based upon the tax years of non-use. The IRS will continue to deactivate ITINs each calendar year beyond December 31, 2018.

**Figure 1: Examples of Deactivation Dates
Based on Tax Years of Non-Use**

Tax Years of Non-Use	Required Deactivation Date
Non-use in Tax Years 2012, 2013, and 2014	December 31, 2015
Non-use in Tax Years 2013, 2014, and 2015	December 31, 2016
Non-use in Tax Years 2014, 2015, and 2016	December 31, 2017
Non-use in Tax Years 2015, 2016, and 2017	December 31, 2018

Source: Section 203 of the PATH Act.

¹ See Appendix VI for a glossary of terms.

² Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, 129 Stat. 2242 (2015).

³ An ITIN is considered used if the ITIN belongs to the individual who files the tax return, the individual's spouse, or a dependent included on the tax return.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

- **Issuance date of an ITIN** – ITINs issued prior to January 1, 2013, were required to be deactivated based upon a specific schedule detailed in the PATH Act. Figure 2 shows the deactivation schedule of ITINs based upon the issuance dates as shown in the PATH Act.

Figure 2: The PATH Act Deactivation Schedule of ITINs Based on Issuance Date

Calendar Year of ITIN Issuance	Required Deactivation Date
Prior to 2008	January 1, 2017
Issued in 2008	January 1, 2018
Issued in 2009 or 2010	January 1, 2019
Issued in 2011 or 2012	January 1, 2020
Issued in 2013 or later	Not Applicable ⁴

Source: Section 203 of the PATH Act.

The PATH Act specifies that ITINs issued prior to January 1, 2013, shall remain active until the earlier of the applicable date, *i.e.*, the required deactivation date listed in Figure 2, or the last day of the tax year after the third consecutive tax year of non-use.

IRS processes to deactivate ITINs

The IRS identifies all ITINs that have not been used on a tax return for three consecutive tax years. Then the IRS evaluates the remaining ITINs, *i.e.*, those that had been used on a tax return within the last three tax years, to identify those that should be deactivated based on the middle two digits of the ITIN, *i.e.*, year of issuance. The following are the specific processes the IRS uses to identify and deactivate ITINs:

- **Non-use of ITINs** – The IRS conducted an analysis using a database⁵ of TINs that it compiles from filed tax returns, as of the end of December 2016, to identify ITINs that were used on a filed tax return at least once in the last three consecutive tax years. The IRS then matched these active ITINs to a file of all ITINs issued to identify those that were not used in the last three consecutive tax years. As of December 31, 2016, the IRS deactivated 12,018,537 ITINs for non-use.
- **ITINs deactivated based on issuance date** – The IRS did not capture the date ITINs were issued prior to Calendar Year 2014. As such, the IRS created a deactivation schedule using the middle two digits (fourth and fifth digits) of an ITIN. IRS management stated that using the middle two digits to deactivate ITINs would enable the IRS to better

⁴ ITINs issued on January 1, 2013, or later remain active unless the ITIN has not been used for three consecutive tax years.

⁵ The IRS Duplicate TIN database. See Appendix VI.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

manage available resources to ensure that they could respond timely to ITIN renewal requests. In addition, IRS management stated that this approach allowed for clearer communication to affected taxpayers as many ITIN holders would not know the issuance date of their ITIN. As of January 1, 2017, the IRS deactivated 384,421 ITINs with the middle two digits of 78 or 79.

For those ITINs identified and deactivated, the IRS changes the status field of the ITIN from active to inactive in its ITIN Real-Time System (RTS). The status field is also updated on the taxpayer's IRS Master File account and the IRS's National Account Profile (NAP). The IRS uses the NAP when processing tax returns to determine if the ITIN on a tax return is valid.

Notification to individuals whose ITIN was scheduled for deactivation based on issuance date

Notification letters were sent to most of the individuals whose ITIN was to be deactivated based on the date the ITIN was issued.⁶ From August 15, 2016, through September 20, 2016, the IRS mailed 308,617 letters to households that included 385,887 individuals with an ITIN the IRS identified as of June 30, 2016, as being used on a tax return and having the middle two digits of 78 or 79.⁷ The letters informed the individuals that their ITIN would be deactivated on January 1, 2017. The letter also notified individuals that beginning October 1, 2016, they may submit a Form W-7, *Application for IRS Individual Taxpayer Identification Number*, to renew their ITIN.

The IRS did not send notification letters to individuals whose ITIN was scheduled to be deactivated due to non-use. IRS management made this decision because they believed that the volume of undeliverable letters would be high because the IRS would not have a recent address for these ITIN holders as the ITINs had not recently been used on a tax return.

Renewal of deactivated ITINs

Individuals whose ITIN was deactivated must submit a new Form W-7 to reapply if they have a continued tax need for an ITIN (referred to as a renewal application). As with all ITIN applications, individuals must again provide supporting documents, *i.e.*, original or certified copies, to prove their identity and claim of foreign status. At least one document must include the individual's photograph, unless the individual is a dependent under age 14 (under age 18 if a student). However, individuals who are submitting a renewal application are not required to include their tax return with their application, as is required for first-time applicants. We are conducting a separate review of the effectiveness of the IRS's processes to ensure that only

⁶ The IRS did not send notification letters to deceased ITIN holders or to ITIN holders with a Certified Acceptance Agent or an incomplete address.

⁷ The IRS mailed one letter to each household. A household may include more than one person with an ITIN that would be deactivated.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

individuals with a tax need are assigned an ITIN, including renewing a deactivated ITIN. We plan to issue a separate report later this calendar year.

Prior Treasury Inspector General for Tax Administration (TIGTA) reports recommended the deactivation of ITINs to address potential fraudulent misuse

In July 2012, we reported that only 20,950 (21 percent) of the first 100,000 ITINs issued in Calendar Year 1996 were used as a primary ITIN on a tax return during Processing Year 2011.⁸ We recommended that the IRS develop a process to identify and deactivate ITINs assigned to individuals who no longer have a tax filing requirement. In response, the IRS stated that ITINs issued after January 1, 2013, would expire after five tax years. Individuals who still needed an ITIN after the ITIN expires would have to reapply. The IRS also noted that it would continue to explore options for deactivating the ITINs assigned to individuals prior to January 1, 2013, who no longer had a tax filing requirement.

In September 2013, we again reported that the IRS still had not developed processes to deactivate ITINs assigned to individuals who no longer have a tax filing need or identify the ITINs of deceased individuals.⁹ Our analysis of Tax Year 2011 returns identified more than 141,000 potential fraudulent tax returns filed using an ITIN that received approximately \$385 million in potentially fraudulent tax refunds. We again recommended that the IRS implement a process to deactivate ITINs assigned to individuals prior to January 1, 2013, who no longer have a tax filing requirement. The IRS agreed, stating that an implementation team was addressing the deactivation process for the ITINs issued prior to Calendar Year 2013 and was developing an enterprise-wide process to accomplish that objective.

In June 2014, the IRS publically announced that ITINs will expire if not used on a tax return once for a period of five consecutive tax years.¹⁰ This policy differed from the IRS's original planned process to expire ITINs after five tax years, regardless of use. Despite the IRS having a policy to deactivate ITINs, no ITINs had been deactivated. We again reported in April 2015 that the IRS had not yet implemented processes to deactivate ITINs assigned to individuals who no longer have a tax need.¹¹ We recommended that the IRS outline specific actions and time frames for the implementation of a process to deactivate ITINs assigned to individuals prior to January 1, 2013, including processes to identify and deactivate ITINs assigned to individuals who were now deceased. The IRS agreed with this recommendation, stating it was developing

⁸ TIGTA, Ref. No. 2012-42-081, *Substantial Changes Are Needed to the Individual Taxpayer Identification Number Program to Detect Fraudulent Applications* (July 2012).

⁹ TIGTA, Ref. No. 2013-40-122, *Detection Has Improved; However, Identity Theft Continues to Result in Billions of Dollars in Potentially Fraudulent Tax Refunds* (Sept. 2013).

¹⁰ IRS News Release IR-2014-76 issued June 30, 2014.

¹¹ TIGTA, Ref. No. 2015-40-026, *Efforts Are Resulting in the Improved Identification of Fraudulent Tax Returns Involving Identity Theft* (Apr. 2015).



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

an action plan and projecting time frames to effect the implementation of the ITIN deactivation. As we previously detailed, the PATH Act now requires the IRS to deactivate ITINs.

This review was performed at TIGTA's office in Kansas City, Missouri, with information obtained from the Wage and Investment Division, Submission Processing offices located in Austin, Texas, and Cincinnati, Ohio, during the period January through June 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.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Results of Review

Some Legislative Deactivation Requirements Were Not Met

In response to prior TIGTA recommendations¹² and prior to the passage of the PATH Act, the IRS was in the process of developing processes and procedures to deactivate ITINs that were not used for five consecutive tax years. The PATH Act changed the criteria for deactivation requiring the IRS to deactivate ITINs not used for three consecutive tax years. The PATH Act required the IRS to begin deactivating ITINs for non-use on December 31, 2015. However, the IRS did not have sufficient time between the passage of the PATH Act on December 18, 2015, and the required deactivation date of December 31, 2015, to modify its ongoing deactivation plans to meet the PATH Act requirement date. There were 12.2 million ITINs that were not used on a Tax Year 2012, 2013, or 2014 return that should have been deactivated as of December 31, 2015. The IRS did not begin to deactivate ITINs for non-use until December 31, 2016, when the IRS deactivated a total of 12,018,537 ITINs for non-use on a tax return in Tax Years 2013, 2014 and 2015.

The IRS was required by the PATH Act to deactivate four million ITINS with an issuance date prior to January 1, 2013, but only deactivated 384,321

The PATH Act also requires the IRS to deactivate all ITINs with an issuance date prior to January 1, 2013, and included in the legislation a specific time frame by which these ITINs were to be deactivated. Based on this schedule, all ITINs issued prior to January 1, 2008, were to be deactivated on January 1, 2017. However, on July 20, 2016, the IRS advised the U.S. Senate Committee on Finance and the House Committee on Ways and Means that it would not be deactivating ITINs using the schedule set forth in the PATH Act (see Figure 2).¹³ The IRS cited its inability to determine the specific issuance date of ITINs issued prior to Calendar Year 2014 as the reason for not complying with the required deactivation schedule. IRS management was also concerned with their ability to timely process ITIN applications that would be submitted to renew or reactivate ITINs prior to the 2017 Filing Season in conjunction with processing applications for new ITINs. The IRS estimated that approximately 12.4 million ITINs were

¹² TIGTA, Ref. No. 2012-42-081, *Substantial Changes Are Needed to the Individual Taxpayer Identification Number Program to Detect Fraudulent Applications* (July 2012); TIGTA, Ref. No. 2013-40-122, *Detection Has Improved; However, Identity Theft Continues to Result in Billions of Dollars in Potentially Fraudulent Tax Refunds* (Sept. 2013); and TIGTA, Ref. No. 2015-40-026, *Efforts Are Resulting in the Improved Identification of Fraudulent Tax Returns Involving Identity Theft* (Apr. 2015).

¹³ See Appendix V. The IRS also issued Notice 2016-48 on August 4, 2016, containing the details of its alternate plan for deactivating ITINs issued prior to January 1, 2013.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

issued prior to Calendar Year 2008 with approximately 3.4 million of those ITIN holders potentially submitting an application to have their ITIN renewed.

As a result of these detailed limitations and concerns, the IRS developed an alternate schedule for deactivating ITINs issued prior to January 1, 2013, that used the middle two digits of the ITIN to determine the time frame for deactivation. Based on this alternate schedule, as of January 1, 2017, the IRS deactivated 384,421 ITINs that had not already been deactivated for non-use. The IRS should have deactivated a total of four million ITINs in compliance with PATH Act requirements.¹⁴

In addition, per the PATH Act, all ITINs issued prior to January 1, 2013, would be deactivated as of January 1, 2020, but using the IRS's revised schedule, these ITINs will not be deactivated until January 1, 2025. Figure 3 provides a comparison of the PATH Act schedule for deactivation based on the ITIN issuance date to the IRS's alternate schedule for deactivating ITINs issued prior to January 1, 2013.

Figure 3: Comparison of the PATH Act and IRS's Schedule for Deactivating ITINs Issued Prior to January 1, 2013

PATH Act Deactivation Schedule		IRS Deactivation Schedule	
Calendar Year of ITIN Issuance	Deactivation Date	Calendar Year of ITIN Issuance	Deactivation Date
Issued prior to 2008	January 1, 2017	Middle two digits of 78 and 79 issued in 1996 - 2000.	January 1, 2017
Issued in 2008	January 1, 2018	Middle two digits of 70 through 72 and 80 issued in 1996 - 2006.	January 1, 2018
Issued in 2009 or 2010	January 1, 2019	Middle two digits of 73 through 75 issued in 2000 - 2006.	January 1, 2019
Issued in 2011 or 2012	January 1, 2020	Middle two digits of 76 through 77 and 81 issued in 2000 - April 2011.	January 1, 2020

¹⁴ Our analysis identified 12.4 million ITINs with an issuance date prior to January 1, 2008. The IRS deactivated 8.8 million of the 12.4 million ITINs, resulting in 3.6 million that were not deactivated. When these 3.6 million ITINs that were not deactivated are combined with the 384,421 ITINs that were deactivated, the result is a total of four million ITINs that should have been deactivated per the PATH Act.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

PATH Act Deactivation Schedule		IRS Deactivation Schedule	
Calendar Year of ITIN Issuance	Deactivation Date	Calendar Year of ITIN Issuance	Deactivation Date
Issued in 2013 or later	Not Applicable ¹⁵	Middle two digits of 82 and 83 issued in April 2006 - April 2011.	January 1, 2021
		Middle two digits of 84 and 85 issued in April 2006 - April 2011.	January 1, 2022
		Middle two digits 86 and 87 issued in April 2006 - April 2011.	January 1, 2023
		Middle two digits 88 and 90 through 92 ¹⁶ issued in April 2006 to present.	January 1, 2024
		Middle two digits 94 ¹⁷ and 95 through 99 ¹⁸ issued May 2011 to present.	January 1, 2025

Source: Section 203 of the PATH Act and IRS programming details included in Unified Work Request.

IRS overestimated the impact of ITIN renewal applications on available resources

IRS management deviated from the deactivation schedule in the PATH Act out of concern for the anticipated volume of ITIN renewal applications that would be received. The IRS estimated it would receive approximately 441,600 renewal applications by following their alternate schedule. However, as we discussed previously, the IRS deactivated only 384,421 ITINs based on issuance date alone (middle digits of 78 or 79). As of June 10, 2017, the IRS had received only 208,585 (47 percent of the estimated volume) ITIN renewal applications.

Given that the IRS developed a process to identify the issuance date of an ITIN and the volume of ITIN applications submitted to renew or reactivate ITINs was much lower than estimated, the IRS should be able to modify its deactivation schedule so that it can reduce the amount of time

¹⁵ ITINs issued on January 1, 2013, and later remain active unless the ITIN has not been used for three consecutive tax years.

¹⁶ Only ITINs with the middle digits of 90 through 92 and the first three digits of 900 through 925 are scheduled to be deactivated.

¹⁷ Only ITINs with the middle digit of 94 and the first three digits of 900 through 924, as well as the first three digits of 925 with the last four digits of 0000 through 0375, are scheduled to be deactivated.

¹⁸ Only ITINs with the middle digits of 95 through 99 and the first three digits of 900 through 924 are scheduled to be deactivated.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

that it is not in compliance with the law. However, as of June 15, 2017, management stated that the IRS has made no changes to its processes for identifying and deactivating ITINs and no changes are planned for the 2018 Filing Season. IRS management did note that they plan to continue to monitor the ITIN deactivation program and will revise processes in the future, as necessary. IRS management also stated that they have a goal to complete the deactivation of ITINs issued prior to Calendar Year 2013 more in line with the PATH Act than the current schedule but provided no specific information on how they plan to achieve this goal.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should modify its deactivation schedule to improve its timeliness in complying with the requirements of the PATH Act.

Management's Response: The IRS agreed with this recommendation. IRS management responded that the projections on which their original deactivation schedule is based are being updated with actual renewal volume data. The IRS also plans to update the deactivation schedule to reflect a revised timeline commensurate with the schedule established by the PATH Act.

The Majority of Individual Taxpayer Identification Numbers Were Accurately Identified and Deactivated

Our analysis of the more than 23 million ITINs issued as of December 2016 found that the IRS accurately identified and deactivated the majority of the 12.4 million ITINs requiring deactivation as of January 1, 2017.¹⁹ However, our analysis identified an additional 89,105 ITINs that should have been deactivated by the IRS and were not. These include:

- 83,184 ITINs that were not deactivated as a result of a computer programming error that incorrectly excluded ITINs from deactivation when the ITIN status field shown in the ITIN RTS was blank. This can occur when the IRS rejects an ITIN application but the ITIN status field in the ITIN RTS is not updated to show that the ITIN is no longer valid. We notified the IRS of our concerns on March 10, 2017. The IRS agreed these ITINs met the criteria to be deactivated. On May 23, 2017, IRS management stated that they were still in the process of determining the appropriate actions needed to resolve the discrepancy in the ITIN status field in the ITIN RTS. As of October 19, 2017, the IRS still has not implemented any actions to resolve the discrepancy.

¹⁹ The IRS deactivated 12,018,537 ITINs for non-use as of December 31, 2016, and 384,421 ITINs with middle digits of 78 or 79, as of January 1, 2017.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

- 5,921 ITINs that were not deactivated as a result of the IRS incorrectly identifying these ITINs as having been used. Specifically, we identified:
 - 3,387 ITINs that were used on one or more tax returns in Tax Years 2013 through 2015 but the return did not post to the IRS Master File. As such, the ITIN was not used on a valid return. IRS management stated these ITINs were not deactivated due to limitations in the file used by the IRS for deactivation.
 - 1,503 ITINs that the IRS indicated were used on a tax return at least once in Tax Years 2013 through 2015. However, we were unable to locate the tax returns on which these ITINs were used in our analysis of return filings. Additionally, the IRS was unable to provide the primary TIN of the tax return on which the ITIN was used for our additional review. IRS management stated these ITINs should have been deactivated, and they are coordinating with their Information Technology department regarding the need for programming changes.
 - 1,031 ITINs that contained the middle digits of 78 or 79. As such, these ITINs should have been deactivated according to the IRS's alternate plan for deactivating ITINs issued prior to January 1, 2013, regardless of use or non-use on a tax return. IRS management stated that these ITINs should have been deactivated, and they are coordinating with their Information Technology department regarding the need for programming changes.

As a result, individuals potentially received \$637,181 in refundable tax credits and did not pay an estimated \$359,127 in tax as a result of erroneous personal tax exemptions on 1,298 tax returns filed as of April 20, 2017. Had the IRS correctly deactivated these 89,105 ITINs, these tax returns would have been identified during processing as being filed using an inactive ITIN and been subjected to additional review whereby adjustments would be made to disallow the exemptions and tax credits claimed.

Some ITINs were erroneously deactivated

Our analysis of the more than 23 million ITINs issued as of December 2016 identified 133,054 ITINs that were erroneously deactivated despite their use on at least one tax return in the last three tax years. Our analysis of tax returns processed as of February 16, 2017, identified 5,201 tax returns that were filed using 5,860 of the 133,054 ITINs.²⁰ These errors occurred because the file the IRS used to identify ITINs for deactivation does not include ITINs that were:

- Used on paper-filed prior tax year returns, *i.e.*, the taxpayer filed a paper Tax Year 2014 return during the 2016 Filing Season.

²⁰ There were more ITINs than tax returns because multiple ITINs from the same tax family can be used on the same tax return. In addition, the same ITIN was sometimes used on tax returns for multiple tax years during Processing Year 2017, *i.e.*, late-filer, including ITINs used on 155 tax returns for periods prior to Tax Year 2013.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

- Subsequently updated to a valid status during tax return processing. For example, the IRS corrects an ITIN for which the ITIN and name did not initially match IRS records.
- Used on tax returns that the IRS was initially unable to post to the IRS Master File that were subsequently corrected.

We alerted the IRS of our concerns on January 25, 2017, and February 3, 2017. The IRS systemically reactivated these ITINs on February 13, 2017. However, as of May 23, 2017, the IRS still had not implemented programming changes to correct the issues we identified. IRS management is currently researching a solution to identify the ITINs that meet the conditions previously described. Subsequent analysis of the 5,860 ITINs found that the IRS took steps to ensure that the ITIN holders whose ITIN was erroneously deactivated and subsequently used on a tax return received the benefits to which they were entitled. This included identifying tax returns for which ITINs had been used on and subsequently allowing the exemptions and refundable credits that had previously been disallowed.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 2: Revise computer programming to deactivate ITINs when the Form W-7 was rejected and the ITIN status field in the ITIN RTS is blank.

Management's Response: The IRS agreed with this recommendation and plans to request the requisite programming changes to prevent ITINs from being omitted for deactivation based on the RTS ITIN status. However, IRS management indicated that because Information Technology resources are limited and subject to competing priorities, an implementation date for these actions cannot be provided.

Recommendation 3: Deactivate the 89,105 ITINs we identified that should have been deactivated.

Management's Response: The IRS agreed with this recommendation. IRS management plans to explore systemic solutions to process the ITIN deactivations through the RTS. However, if an automated solution is not timely or viable, the deactivations will be processed manually, subject to resource availability.

Recommendation 4: Review the 1,298 tax returns for which the IRS incorrectly paid personal tax exemptions and refundable credits as a result of the ITIN not being deactivated to ensure that tax benefits paid in error are recovered.

Management's Response: The IRS agreed with this recommendation. IRS management plans to review the affected returns and take appropriate steps to recover any tax benefit found to have been paid in error.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Recommendation 5: Revise the methodology used to identify ITINs for deactivation to include all ITINs used on prior tax year paper-filed tax returns and all ITINs that are corrected during IRS processing to ensure that ITINs are not erroneously deactivated.

Management's Response: The IRS disagreed with this recommendation. IRS management responded that only 1 percent of the deactivated ITINs were deactivated erroneously, and fewer than 5 percent of the filings each year are prior year returns. Programming has been implemented to recognize ITINs used on paper returns that do not post, and in lieu of additional programming for such a small population of accounts, manual processes have been implemented to correct other erroneous deactivation conditions.

Office of Audit Comment: Although the IRS did not agree to modify its methodology for identifying ITINs for deactivation, IRS management indicates programming was implemented to address ITINs used on paper returns that do not post. These returns account for 12.7 percent of the errors we identified. In addition, IRS management states that manual processes were implemented to address the other erroneous deactivation conditions we identified. We will continue to evaluate the effectiveness of these manual processes.

Some Tax Returns Filed With an Inactive Individual Taxpayer Identification Number Were Not Identified During Processing

Our analysis of tax returns processed during the 2017 Filing Season, as of May 4, 2017, found that the IRS did not always identify tax returns filed with inactive ITINs. For example, we identified 11,350 inactive ITINs used 12,357 times on 9,818 tax returns²¹ for which the IRS incorrectly allowed refundable credits totaling more than \$2.6 million. In addition, these individuals did not pay more than \$2.4 million in tax as a result of erroneous personal tax exemptions. When we discussed the results of our analysis with IRS management, they indicated that IRS employees did not take the correct action when processing the 9,818 tax returns we identified.

The IRS developed processes to identify tax returns filed with an inactive ITIN. These processes identify tax returns prior to accepting electronically filed (e-filed) tax returns and during return processing for both e-filed and paper-filed tax returns. For example:

- **Rejecting e-filed tax returns** – The IRS rejects e-filed tax returns that include the use of an inactive ITIN. Taxpayers receive a message informing them that one or more ITINs on the tax return have expired. The reject message tells the taxpayer that continuing to

²¹ There were more ITINs than tax returns because multiple ITINs from the same tax family can be used on the same tax return. In addition, the same ITIN was sometimes used on tax returns for multiple tax years during Processing Year 2017, *i.e.*, late-filer, including ITINs used on 162 tax returns for periods prior to Tax Year 2013.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

e-file could result in delayed processing of the tax return, as well as the disallowance of exemptions and credits associated with the ITIN. The message also instructs the taxpayer to file a paper tax return and attach a Form W-7, along with the required supporting documentation to renew the qualifying person's ITIN and avoid processing delays. This reject message allows the taxpayer an opportunity to self-correct their tax return by removing the inactive ITIN.

The IRS stated it discontinued rejecting e-filed tax returns with inactive ITINs on January 19, 2017. However, IRS management did not provide a business justification for doing so. Subsequent to January 19, 2017, the IRS identifies accepted e-filed tax returns with an inactive ITIN and sends the tax return to its Error Resolution function to be reviewed (subsequently discussed). If a taxpayer previously received a reject message and resubmits the e-filed tax return without self-correcting, *i.e.*, removing the questionable ITIN, the IRS will attempt to correct the return through the Error Resolution System.

- **Error Resolution System** – The IRS developed processes to systemically identify both e-filed and paper-filed tax returns that contain an inactive ITIN. Identified tax returns are forwarded to the IRS Error Resolution function for additional review. Once received, IRS Error Resolution function employees confirm the status of the ITIN using the NAP. Tax returns with confirmed inactive ITINs are adjusted to disallow the exemptions and tax credits associated with the inactive ITIN.

The decision to discontinue rejecting e-filed tax returns with deactivated ITINs results in the inefficient use of resources

According to the IRS, 144,612 e-filed and 47,745 paper-filed tax returns were identified and sent to the IRS Error Resolution function for additional review as of May 10, 2017. The IRS's decision to discontinue rejecting e-filed tax returns results in the inefficient use of resources and errors that now require the IRS to adjust tax returns in which refundable credits and personal exemptions were erroneously allowed for deactivated ITINs. According to the IRS, it costs \$2.53 to work each e-filed tax return in the IRS's Error Resolution System. Therefore, we estimate that the IRS could have incurred unnecessary expenses of approximately \$366,000 as a result of their decision to discontinue rejecting e-filed tax returns filed with inactive ITINs and manually sending these returns to their Error Resolution function. Our estimate assumes that the taxpayer would self-correct their tax return by removing the ITIN in question when receiving the reject message from the IRS and would resubmit a corrected e-filed tax return.

Not all IRS Master File tax accounts were updated to reflect ITIN inactive status

Our review also identified that IRS Master File tax accounts did not always accurately reflect the inactive status of more than 3.1 million (26 percent) of the 12.1 million ITINs we reviewed.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Further analysis of the tax accounts associated with these more than 3.1 million ITINs found that:

- 3.1 million ITINs had no active tax account on the IRS Master File. This would occur when the ITINs had not recently been used to file a tax return. As such, the IRS would not have an active tax account on the IRS Master File to update.
- 4,264 ITINs had an active account on the IRS Master File but the name of the individual who obtained the ITIN did not match the name on the tax account, which resulted in the IRS Master File not being updated. The IRS subsequently updated the IRS Master File status to show that 1,456 of the 4,264 ITINs were inactive. IRS management stated that programming changes were implemented on March 9, 2017, to ensure that active ITIN accounts on the Master File are updated when the name of the individual who obtained the ITIN does not match the name on the tax account.

According to IRS management, when an inactive ITIN is used on a tax return, there are no significant consequences of the Master File not being updated to reflect the inactive status of a deactivated ITIN, since the IRS uses the NAP when processing tax returns to determine if the ITIN on a tax return is valid. IRS management also stated that the purpose for updating the ITIN status field on the Master File was to freeze a tax account when the primary taxpayer on the tax return has an inactive ITIN to prevent the full refund from being released until the ITIN has been renewed.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 6: Review and update existing policies to ensure that tax returns filed with inactive ITINs are accurately processed by employees in the IRS's Error Resolution System.

Management's Response: The IRS agreed with this recommendation and has updated procedures to clarify for tax examiners the procedures to be performed within the Error Resolution System when an inactive ITIN is present on a tax return.

Recommendation 7: Review the 9,818 tax returns for which the IRS did not identify inactive ITINs due to tax examiner error and ensure that taxpayers only receive the tax benefits to which they are entitled.

Management's Response: The IRS agreed with this recommendation. IRS management plans to review the affected returns and take appropriate steps to recover any tax benefit found to have been paid in error.

Recommendation 8: Reinstate computer programming to reject e-filed tax returns filed with inactive ITINs.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Management's Response: The IRS disagreed with this recommendation. IRS management responded that the use of a deactivated ITIN on a tax return does not render the return unprocessable. The Error Resolution System detects deactivated ITINs on both paper and electronic returns and directs them to the appropriate treatment process, which can include the disallowance of tax credits or other benefits that require notification to the taxpayer. Treating electronic returns on par with paper returns for this condition reduces the chances the taxpayers will change from electronic to paper filing which has a substantially higher processing cost than an electronic return.

Office of Audit Comment: We agree it is more cost beneficial to process an e-filed tax return. However, the process that we recommended to be reinstated does not require taxpayers to resubmit their tax return on paper as IRS management states. The IRS confirmed that the original process it suspended on January 17, 2017, rejected the tax return alerting the taxpayer of the deactivated ITIN and allowed the taxpayer to resubmit their tax return electronically. If the taxpayer chooses not to renew their ITIN before resubmitting, the tax return will continue to be identified for manual verification. Such a process can result in additional cost savings to the IRS by allowing taxpayers to correct their tax return before manual verification is needed.

Recommendation 9: Correct computer programming to ensure that the status field of all active ITIN accounts on the IRS Master File are updated when the ITIN is deactivated, including those in which the name of the individual who obtained the ITIN does not match the name on the tax account.

Management's Response: The IRS agreed with this recommendation and corrected the programming on the Individual Master File on March 9, 2017.

Recommendation 10: Ensure that the IRS Master File accounts associated with the remaining 2,808 ITINs with an active IRS Master File Account are updated to reflect the inactive status of the ITIN.

Management's Response: The IRS agreed with this recommendation. IRS management plans to review the affected accounts and take appropriate actions to update the ITIN status and reconcile the differences between the Individual Master File and the RTS.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the IRS accurately identified and deactivated those ITINs¹ required by the PATH Act to be deactivated prior to January 1, 2017. To accomplish our objective, we:

- I. Evaluated IRS efforts to notify taxpayers with ITINs that will be deactivated.
 - A. Obtained the file of letters that the IRS mailed to taxpayers and matched to our independently identified population to determine if the notice list was complete. We shared any discrepancies with the IRS to obtain their response as to why a taxpayer did or did not receive a letter.
 - B. Requested information about undeliverable letters in an attempt to determine if the best addresses were used by the IRS.
- II. Determined if the IRS correctly deactivated ITINs due to non-use.
 - A. Reviewed the PATH Act to determine the requirements for deactivating ITINs due to non-use.
 - B. Reviewed the IRS's ITIN deactivation plan, *etc.*, to determine the IRS's requirements for identifying ITINs to be deactivated due to non-use and determined if there were differences between the PATH Act legal requirements and the IRS's ITIN deactivation plan.
 - C. Performed data analysis to create our own file of ITINs that should have been deactivated due to non-use as of December 31, 2015.
 1. Used the NAP file to identify all ITINs that had been issued.
 2. Used the Individual Returns Transaction File (IRTF) files to identify ITINs that were used on tax returns for Tax Years 2012, 2013, or 2014.
 3. Selected a random sample from the NAP and IRTF data files and validated that the results were as expected. We also assessed the reliability of the data obtained by matching the data pulled to the IRS's Integrated Data Retrieval System. We determined that the data were sufficiently reliable for purposes of this report.

¹ See Appendix VI for a glossary of terms.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

- D. Performed data analysis to create our own file of ITINs that should have been deactivated due to non-use as of December 31, 2016.
 - 1. Used the NAP file to identify all ITINs that had been issued.
 - 2. Used the IRTF files to identify ITINs that were used on tax returns for Tax Years 2013, 2014, or 2015.
 - 3. Selected a random sample from the NAP and IRTF data files and validated that the results were as expected. We also assessed the reliability of the data obtained by matching the data pulled to the IRS's Integrated Data Retrieval System. We determined that the data were sufficiently reliable for purposes of this report.
- III. Determined if the IRS correctly deactivated ITINs due to issuance date of the ITIN.
 - A. Reviewed the PATH Act to determine the requirements for deactivating ITINs due to the issuance date of the ITIN.
 - B. Reviewed the IRS's ITIN deactivation plan, *etc.*, to determine the IRS's requirements for identifying ITINs to be deactivated due to the issuance date of the ITIN.
 - 1. Determined if there were differences between the PATH Act legal requirements and the IRS's ITIN deactivation plan. We obtained documentation from the IRS supporting their decision to implement ITIN deactivations differently from the PATH Act.
 - 2. Obtained copies of communications with Congress about any deviations from the requirements in the PATH Act.
 - C. Performed data analysis to create our own file of ITINs that should be deactivated as of January 1, 2017, due to the issuance date of the ITIN.
 - 1. Identified ITINs that should be deactivated using IRS's alternate plan. We used the IRTF files to identify ITINs with the middle digits of 78 or 79 that were used on tax returns for Tax Years 2013, 2014, or 2015.
 - 2. Identified ITINs that should be deactivated using the requirements in the PATH Act. We identified ITINs issued prior to January 1, 2008, using the updated NAP file that contains the ITIN issuance date field.
 - 3. Selected a random sample from the data files and validated that the results were as expected. We also assessed the reliability of the data obtained by matching the data pulled to the IRS's Integrated Data Retrieval System and the ITIN RTS to ensure that our population(s) identified was accurate. We determined that the data were sufficiently reliable for purposes of this report.
- IV. Determined if the IRS correctly updated the ITIN status field on the NAP, IRS Master File, and the ITIN RTS for the ITINs that have been deactivated.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

- A. Determined the IRS's plans for updating the status fields on the NAP and IRS Master File.
- B. Verified that the ITIN statuses were being updated on the NAP by early January 2017.
- C. Verified that the ITIN statuses were being updated on the IRS Master File.
 - 1. Selected and validated a random sample from the IRS Master File. We also assessed the reliability of the data obtained by tracing to the IRS's Integrated Data Retrieval System and determined that the data were sufficiently reliable for purposes of this report.
 - 2. Compared the ITINs that should be deactivated to the IRS Master File to determine if the IRS Master File reflected the code for inactive ITINs.
- V. Verified that the correct ITINs were deactivated by the IRS for non-use and issuance date.
 - 1. Matched our file of ITINs that should have been deactivated due to non-use as of December 31, 2016, to our file of ITINs that should have been deactivated as of January 1, 2017, due to them containing middle digits of 78 or 79. This allowed us to only include an ITIN once rather than in both populations.
 - 2. Queried our distinct file of ITINs requiring deactivation as of December 31, 2016, or January 1, 2017, to determine whether all have an "inactive" status.
 - 3. Determined if there were ITINs that TIGTA identified for deactivation that the IRS did not deactivate.
 - 4. Determined if there were ITINs that the IRS deactivated that TIGTA did not identify as requiring deactivation. For any ITINs identified, we determined if the IRS subsequently reactivated the ITINs.

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: Ensuring that ITINs were deactivated based upon the schedules set forth in the PATH Act and ensuring that ITINs identified for deactivation were updated on the NAP and were identified during processing. We evaluated these controls by independently identifying ITINs that should have been deactivated and comparing them to the IRS's results as well as testing to ensure that deactivated ITINs were identified during processing.



*Some Legal Requirements to Deactivate Individual Taxpayer
Identification Numbers Have Not Been Met*

Appendix II

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*Some Legal Requirements to Deactivate Individual Taxpayer
Identification Numbers Have Not Been Met*

Appendix III

Report Distribution List

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



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Revenue Protection – Actual; 12,402,958 ITINs¹ that were deactivated by the IRS as a result of TIGTA’s prior recommendations for the IRS to deactivate ITINs with no tax filing requirement (see page 6).

Methodology Used to Measure the Reported Benefit:

We obtained the number of ITINs deactivated from the IRS, who extracted the numbers from the ITIN RTS. This includes 12,018,537 ITINs deactivated as of December 31, 2016, due to non-use and 384,421 ITINs deactivated as of January 1, 2017, as the middle two digits contained 78 or 79.

Type and Value of Outcome Measure:

- Revenue Protection – Potential; 87,871 ITINs that should have been deactivated and were not (see page 9).

Methodology Used to Measure the Reported Benefit:

We obtained all ITINs on the NAP at the end of December 2016 and limited our analysis to only ITINs with issuance dates prior to January 1, 2015, as the ITINs issued after that were not in existence long enough to not have been used for three consecutive tax years. We matched these ITINs to the IRTF and to the Modernized Tax Return Database dependent data to determine if the ITINs were used in Tax Years 2013 through 2015. We also identified ITINs from the NAP with middle digits of 78 or 79. There were 89,105 ITINs that should have been deactivated by the IRS and were not. We limited our cases to the 87,871 ITINs (89,105 – 1,234) that did not receive refundable credits in Processing Year 2017, as these ITINs are already claimed in the following outcome.

¹ See Appendix VI for a glossary of terms.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Type and Value of Outcome Measure:

- Cost Savings (Funds Be Put to Better Use) – Potential; \$637,181 in erroneous refundable credits paid on 1,298 tax returns for 1,234 ITINs which should have been deactivated and were not (see page 9).

Methodology Used to Measure the Reported Benefit:

We obtained all ITINs on the NAP at the end of December 2016 and limited our analysis to only the ITINs with issuance dates prior to January 1, 2015, as the ITINs issued after that were not in existence long enough to not have been used for three consecutive tax years. We matched these ITINs to the IRTF and to the Modernized Tax Return Database dependent data to determine if the ITINs were used in Tax Years 2013 through 2015. We also identified ITINs from the NAP with middle digits of 78 or 79. There were 89,105 ITINs that should have been deactivated by the IRS and were not.

- For the 83,184 ITINs that had a rejected W-7 status, we queried the IRTF for all tax years filed during Processing Year 2017 and determined that 1,214 ITINs were used on 1,269 tax returns as of April 20, 2017. IRS management stated that more than 500 of the 1,214 ITINs we identified involved the multiple issuance of ITINs to one individual; *i.e.*, the IRS issued more than one ITIN to the same individual. Subsequent analysis found 431 ITINs that were reactivated before the return was filed and 33 ITINs in which the date the refund was issued was after the ITIN was reactivated. As such, we agree that it is not appropriate to include these ITINs as part of the outcome measure, as the ITINs were eligible for the refundable credits received. Therefore, after updating, there were 750 ITINs that were used 839 times on 805 tax returns.

For each of the 805 tax returns, we determined the amounts of refundable credits, *i.e.*, American Opportunity Tax Credit (AOTC) and Additional Child Tax Credit (ACTC), received from the IRS Master File. Our analysis did not consider the Earned Income Tax Credit (EITC) as ITINs are not allowed to claim the EITC. We limited our analysis to tax returns that received the AOTC or the ACTC.

- When the ITIN holder filed a tax return as the primary taxpayer or spouse, we summed the full amount of the AOTC (\$11,846) and the ACTC (\$287,661) received as the tax returns were not eligible for the refundable credits.
- When the ITIN was not the primary taxpayer or spouse on a tax return, we limited our analysis to the ITINs that were reported on the Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits)*, for the AOTC or Schedule 8812, *Child Tax Credit*, for the ACTC and received the refundable credit. We then divided the credit received by the number of TINs receiving the credit to obtain the amount of credit received per individual. We summed these credits per individual for the AOTC (\$2,000) and the ACTC (\$3,545).



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

- For the 5,921 ITINs, we queried the IRTF for all tax years filed during Processing Year 2017 and determined that 597 ITINs were used on 608 tax returns as of April 20, 2017. Based on the IRS's concerns with the population previously discussed, we performed subsequent analysis and found 107 ITINs that were reactivated before the return was filed and six ITINs in which the date the refund was issued was after the ITIN was reactivated. As such, we agree that it is not appropriate to include these ITINs as part of the outcome measure, as the ITINs were eligible for the refundable credits received. Therefore, after updating, there were 484 ITINs that were used 638 times on 493 tax returns.

For each of the 493 tax returns, we determined the amounts of refundable credits, *i.e.*, AOTC and ACTC, received from the IRS Master File. Our analysis did not consider the EITC as ITINs are not allowed to claim the EITC. We limited our analysis to tax returns that received the AOTC or the ACTC.

- When the ITIN holder filed a tax return as the primary taxpayer or spouse, we summed the full amount of the AOTC (\$8,935) and the ACTC (\$224,118) received as the tax returns were not eligible for the refundable credits.
- When the ITIN was not the primary taxpayer or spouse on a tax return, we limited our analysis to ITINs that were reported on the Form 8863 for the AOTC or the Form 8812 for the ACTC and received the refundable credit. We then divided the credit received by the number of TINs receiving the credit to obtain the amount of credit received per individual. We summed these credits per individual for the AOTC (\$5,724) and the ACTC (\$93,352).

Total Refundable Credits: \$637,181
($\$11,846 + \$287,661 + \$2,000 + \$3,545 + \$8,935 + \$224,118 + \$5,724 + \$93,352$)

Type and Value of Outcome Measure:

- Increased Revenue – Potential; \$359,127 in taxes not paid for erroneous exemptions that were allowed on 1,298 tax returns for 1,234 ITINs which should have been deactivated but were not and were claimed as exemptions 1,477 times (see page 9).

Methodology Used to Measure the Reported Benefit:

We obtained all ITINs on the NAP at the end of December 2016 and limited our analysis to only the ITINs with issuance dates prior to January 1, 2015, as the ITINs issued after that were not in existence long enough to not have been used for three consecutive tax years. We matched these ITINs to the IRTF and to the Modernized Tax Return Database dependent data to determine if the ITINs were used in Tax Years 2013 through 2015. We also identified ITINs from the NAP



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

with middle digits of 78 or 79. There were 89,105 ITINs that should have been deactivated by the IRS and were not.

- For the 83,184 ITINs, we queried the IRTF for all tax years filed during Processing Year 2017 and determined that 1,214 ITINs were claimed as exemptions 1,310 times on 1,269 tax returns as of April 20, 2017. IRS management stated that more than 500 of the 1,214 ITINs we identified involved the multiple issuance of ITINs to one individual; *i.e.*, the IRS issued more than one ITIN to the same individual. Subsequent analysis found 431 ITINs that were reactivated before the return was filed and 33 ITINs in which the date the refund was issued was after the ITIN was reactivated. As such, we agree that it is not appropriate to include these ITINs as part of the outcome measure, as the ITINs were eligible for the refundable credits received. Therefore, after updating, there were 750 ITINs that were used 839 times on 805 tax returns.

For each tax return, we computed the actual tax rate by dividing the Form 1040, *U.S. Individual Income Tax Return*, Line 44 (tax) by the Form 1040 Line 43 (taxable income). We then multiplied the value of the exemption(s) for each tax return by the applicable tax year and the computed actual tax rate for that tax return. We summed the values that we computed for these tax returns and determined that the tax benefit of the exemptions for these ITINs was \$232,052.

- For the 5,921 ITINs, we queried the IRTF for all tax years filed during Processing Year 2017 and determined that 597 ITINs were claimed as exemptions 755 times on 608 tax returns as of April 20, 2017. Based on the IRS's concerns with the population previously discussed, we performed subsequent analysis and found 107 ITINs that were reactivated before the return was filed and six ITINs in which the date the refund was issued was after the ITIN was reactivated. As such, we agree that it is not appropriate to include these ITINs as part of the outcome measure, as the ITINs were eligible for the refundable credits received. Therefore, after updating, there were 484 ITINs that were used 638 times on 493 tax returns.

For each tax return, we computed the actual tax rate by dividing the Form 1040 Line 44 (tax) by the Form 1040 Line 43 (taxable income). We then multiplied the value of the exemption(s) for each tax return by the applicable tax year and the computed actual tax rate for that tax return. We summed the values that we computed for these tax returns and determined that the tax benefit of the exemptions for these ITINs was \$127,075.

Total Benefit of Exemptions: \$359,127 (\$232,052 + \$127,075).



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Type and Value of Outcome Measure:

- Reduction of Burden on Taxpayers – Actual; 5,860 ITINs that were inappropriately deactivated by the IRS were used on a tax return (see page 9).

Methodology Used to Measure the Reported Benefit:

We identified 133,054 ITINs that should not have been deactivated by the IRS but were deactivated. These ITINs were systemically reactivated by the IRS on February 13, 2017. We queried the IRTF for all tax years filed during Processing Year 2017 and determined that 5,860 ITINs were used on 5,201 tax returns as of February 16, 2017.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; \$2,657,046 in erroneous refundable credits paid on 9,818 tax returns for 11,350 ITINs which were deactivated by the IRS but not processed correctly (see page 12).

Methodology Used to Measure the Reported Benefit:

We obtained all ITINs on the NAP at the end of December 2016 and limited our analysis to ITINs that the IRS deactivated. We matched these ITINs to the IRTF as of May 4, 2017, to determine how many ITINs were used on a tax return. We then compared the exemptions allowed by the IRS to the exemptions claimed by the taxpayer for these tax returns. When the exemptions allowed were less than the exemptions claimed, we concluded that exemptions and refundable credits were correctly disallowed by the IRS. When the exemptions allowed were greater than or equal to the exemptions claimed, we concluded that the exemptions and refundable credits were not disallowed by the IRS as they should have been. Based on querying the IRTF for all tax years filed during Processing Year 2017, we found that 11,350 distinct ITINs were used on 9,818 tax returns in which the exemptions were allowed as of May 4, 2017. For each of the tax returns, we determined the amounts of any refundable credits, *i.e.*, the AOTC and the ACTC, received from the IRS Master File. Our analysis did not consider the EITC as ITINs are not allowed to claim the EITC. We limited our analysis to tax returns that received the AOTC or ACTC.

- When the ITIN holder filed a tax return as the primary taxpayer or spouse, we summed the full amount of the AOTC (\$41,553) and the ACTC (\$2,176,304) received as the tax returns were not eligible for the refundable credits.
- When the ITIN was not the primary or spouse on a tax return, we limited our analysis to the ITINs that were reported on the Form 8863 for the AOTC or the Form 8812 for the ACTC and received the refundable credit. We then divided the credit received by the number of TINs receiving the credit to obtain the amount of credit received per



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

individual. We summed these credits per individual for the AOTC (\$10,493) and the ACTC (\$428,696).

Total Refundable Credits: \$2,657,046 (\$41,553 + \$2,176,304 + \$10,493 + \$428,696)

Type and Value of Outcome Measure:

- Increased Revenue – Potential; \$2,489,567 in taxes not paid for erroneous exemptions that were allowed on 9,818 tax returns for 11,350 ITINs which were deactivated but processed incorrectly and allowed to be used 12,357 times (see page 12).

Methodology Used to Measure the Reported Benefit:

We obtained all ITINs on the NAP at the end of December 2016 and limited our analysis to ITINs that the IRS deactivated. We matched these ITINs to the IRTF as of May 4, 2017, to determine how many ITINs were used on a tax return. We then compared the exemptions allowed by the IRS to the exemptions claimed by the taxpayer for these tax returns. When the exemptions allowed were less than the exemptions claimed, we concluded that exemptions and refundable credits were correctly disallowed by the IRS. When the exemptions allowed were greater than or equal to the exemptions claimed, we concluded that the exemptions and refundable credits were not disallowed by the IRS as they should have been. Based upon querying the IRTF for all tax years filed during Processing Year 2017, we found that 11,350 distinct ITINs were used on 9,818 tax returns in which the exemptions were allowed as of May 4, 2017. For each tax return, we computed the actual tax rate by dividing the Form 1040 Line 44 (tax) by the Form 1040 Line 43 (taxable income). We then multiplied the value of the exemption(s) for each tax return by the applicable tax year and the computed actual tax rate for that tax return. We summed the values that we computed for these tax returns and determined that the taxable value of the exemptions for these ITINs was \$2,489,567.

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Potential; \$365,868 in unnecessary expenses incurred as a result of the IRS's decision to discontinue rejecting e-filed tax returns filed with inactive ITINs present and manually sending them to the IRS's Error Resolution function (see page 12).

Methodology Used to Measure the Reported Benefit:

According to the IRS, 144,612 e-filed and 47,745 paper-filed tax returns were identified for additional review as of May 10, 2017. The IRS's decision to discontinue rejecting e-filed tax returns resulted in the inefficient use of resources and errors that now require the IRS to adjust tax returns in which refundable credits and personal exemptions were erroneously allowed for deactivated ITINs. According to the IRS, it costs \$2.53 to work each e-filed tax return in the IRS's Error Resolution System. Therefore, we estimate that the IRS incurred potential



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

unnecessary expenses of \$365,868 as a result of the IRS's decision to discontinue rejecting e-filed tax returns filed with inactive ITINs present and manually sending them to the Error Resolution function. Our estimates may be overstated as not every taxpayer would self-correct their e-filed tax return to remove the inactive ITIN when receiving the reject message. However, the IRS did not send reject messages to taxpayers for a sufficient enough amount of time to assess the taxpayer's typical response to receiving the reject message; *i.e.*, would the taxpayer self-correct or continue to re-submit. As a result, we are unable to further quantify the effect.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 4,264 ITINs for which the ITIN status field was not updated on the IRS Master File (see page 12).

Methodology Used to Measure the Reported Benefit:

We reviewed 12.1 million of the 12.4 million ITINs that had an inactive ITIN status on the NAP as of December 2016. We matched these ITINs to the IRS Master File as of January 26, 2017, to determine if the ITINs contained the transaction code and action code associated with deactivated ITINs. We found that more than 3.1 million ITINs did not contain the transaction code. We matched these 3.1 million ITINs to the IRS Master File entity file as of December 2016 to determine how many of the ITINs had an existing entity but still did not receive the transaction code for deactivation on the IRS Master File. We found that 4,264 had an existing entity.



*Some Legal Requirements to Deactivate Individual Taxpayer
Identification Numbers Have Not Been Met*

Appendix V

*Internal Revenue Service's Notification to Congress
of the Protecting Americans From Tax Hikes Act of
2015 Deviation*



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

July 20, 2016

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
Washington, DC 20510

The Honorable Kevin Brady
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

The Honorable Sander Levin
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairmen and Ranking Members:

I am writing to advise you of our plans to implement section 203 of the Protecting Americans from Tax Hikes Act of 2015 (PATH Act), which provides new requirements for the issuance of Individual Taxpayer Identification Numbers (ITINs).

As you know, section 203 of the PATH Act requires that we deactivate all ITINs issued before 2013. Depending on the date we issued the ITIN, the statute generally provides for deactivation between January 1, 2017 and January 1, 2020. In addition, the statute requires that we deactivate any ITIN issued after 2012 if a taxpayer has not used it on a tax return for three consecutive tax years. The statute provides rules for issuing replacement ITINs to taxpayers whose ITINs have expired.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

2

Given the fact that over 20 million ITINs are outstanding, we anticipate a significant volume of requests from affected taxpayers to replace their deactivated ITINs. Verifying a taxpayer's eligibility for an ITIN is a time-consuming process, and we lack the resources to process timely the overwhelming volume of ITIN replacement requests we expect to receive if we deactivate ITINs based on the schedule contained in the PATH Act. Deactivating an ITIN, and not issuing a timely replacement to a taxpayer who needs one to comply with the tax laws, is not effective tax administration and creates a situation we seek to avoid.

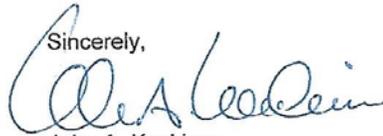
We have developed a plan intended to meet the goals of the statute without leaving taxpayers unable to secure a timely replacement ITIN. As required by the statute, in January 2017 we will deactivate all ITINs not used on a tax return for three consecutive years. Also, beginning in January 2017, we will start to deactivate ITINs issued before 2013. Our approach for deactivating these ITINs will be to start deactivating those with the oldest issuance dates, determined by the middle two digits of the ITIN (the 4th and 5th digits). We estimate this plan will result in the deactivation of more than 11 million ITINs in January 2017. In subsequent years, we will continue to deactivate ITINs based on middle digits until we deactivate all ITINs issued prior to 2013, as the legislation intended.

While this approach will result in our deactivating ITINs less quickly than contemplated in the statute, it will ensure that we can respond timely to ITIN replacement requests, allowing taxpayers to meet their annual filing requirements. In addition, our approach allows for clearer communication to affected taxpayers. A taxpayer may not know the year we assigned the ITIN (and therefore the year we would deactivate the ITIN under the statutory schedule). However, taxpayers will be able to identify easily the middle digits of the ITIN, and we will advise them which ITINs are next scheduled to be deactivated.

Finally, the PATH Act also requires that we conduct a study of the application process for obtaining an ITIN and the effects of the statutory amendments on the application process. The act requires us to provide a report to Congress by December 18, 2016 (one year after the date of enactment) identifying administrative and legislative recommendations to improve the ITIN program. Because a comprehensive and useful report would include a review of the ITIN issuance process following deactivation, a report provided prior to January 2017 would be incomplete. We anticipate issuing the report following the 2017 ITIN deactivations; that report will include our experiences processing ITIN replacement requests.

3

I hope this information is helpful. If you have additional questions, please contact me, or a member of your staff may contact Leonard T. Oursler, Director, Legislative Affairs, at (202) 317-4316.

Sincerely,

John A. Koskinen



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Appendix VI

Glossary of Terms

Term	Definition
Additional Child Tax Credit	The refundable portion of the Child Tax Credit that was designed to reduce the income tax burden for families with dependent children.
American Opportunity Tax Credit	A partially refundable Federal tax credit used to help parents and college students offset the costs of college.
Calendar Year	Twelve consecutive months beginning January 1 and ending December 31.
Certified Acceptance Agent	A person or an entity who, pursuant to a written agreement with the IRS, is authorized to assist individuals and other foreign persons who do not qualify for a Social Security Number but who still need a TIN to file a Form 1040, <i>U.S. Individual Income Tax Return</i> , and other tax schedules. The Certified Acceptance Agent facilitates the application process by reviewing the necessary documents, authenticating the identity when able, and forwarding the completed forms to the IRS.
Duplicate Taxpayer Identification Number Database	Provides information on duplicate uses of an individual's TIN. It maintains a record of how each TIN was used on a Form 1040, <i>e.g.</i> , primary, secondary, dependent.
Earned Income Tax Credit	The EITC is used to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment.
Error Resolution System	An application that provides for the correction of errors associated with input submissions. The error inventory is managed on an Error Resolution System database, and corrected documents are validated by the Generalized Mainline Framework system.
Filing Season	The period from January 1 through mid-April when most individual income tax returns are filed.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Term	Definition
Individual Return Transaction File	An IRS database that contains information on the individual returns the IRS receives.
Individual Taxpayer Identification Number	A number created by the IRS to provide TINs to individuals who do not have and are not eligible to obtain a Social Security Number.
Master File	An IRS database that maintains transactions or records of individual tax accounts.
Modernized Tax Return Database	A legal repository for original e-filed returns received by the IRS through the Modernized e-File system.
National Account Profile	An IRS database that is a compilation of selected entity data from various IRS files that also includes data from the Social Security Administration.
Processing Year	The calendar year in which the return or document is processed by the IRS.
Real-Time System	A web-based application used by ITIN tax examiners to process, assign, and record applicant submissions from people with tax consequences who do not have and are not eligible for a Social Security Number. Tax examiners review all applications and attached documents, then input the information into the ITIN RTS.
Social Security Number	An identification number that is issued by the Social Security Administration and that is used by the IRS in the administration of tax laws.
Tax Year	The 12-month period for which tax is calculated. For most individual taxpayers, the tax year is synonymous with the calendar year.
Taxpayer Identification Number	A nine-digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, the TIN is an Employer Identification Number, a Social Security Number, or an ITIN.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Appendix VII

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

DEC 19 2017

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met (Audit # 201640023)

Thank you for the opportunity to review and comment on the subject draft report. We appreciate your acknowledgement of the accomplishments the IRS has achieved in implementing provisions of the Protecting Americans from Tax Hikes (PATH) Act of 2015¹. Section 203 of the PATH Act provides clear guidance on the period of time Individual Taxpayer Identification Numbers (ITIN) remain valid, requiring the expiration of those issued prior to 2013 on a defined timeline, or any ITIN that has not been used in three consecutive tax years. Some of the challenges faced by the IRS in implementing the PATH Act provisions include the shortening of the window of inactivity that triggers expiration, from the five years of our original process to three; the near-immediate effective date of the legislation, thirteen days after passage; and the scheduled expiration of ITINs based on their issuance date.

In 2016, we adjusted our methodology for identifying inactive ITINs that should be deactivated and, by December 31, 2016, had deactivated almost 99 percent of the 12.2 million that had not been used within the preceding three tax years. Almost 385,000 additional ITINs, issued prior to 2008, were also deactivated. As noted in the report, we had concerns about our ability to timely process the volume of renewal applications expected from holders of the approximately 20 million outstanding ITINs, four million of which were due to be expired immediately. Verifying a taxpayer's eligibility for an ITIN is a time-consuming process and, lacking the resources to process the replacement requests in a timely manner, would jeopardize the ability of those taxpayers to comply with their obligations under the tax laws, and would not result in effective tax administration.

¹ Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, 129 Stat. 2242 (2015).



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

2

On July 20, 2016, we informed Congress that we would be unable to meet the timeframe for deactivation specified by the PATH Act, and that taking an alternate approach would result in better service provided to taxpayers and permit us to provide clearer communication to affected taxpayers facing ITIN deactivation. As of September 22, 2017, of the 441,600 estimated renewals expected, we received 283,285. Our initial renewal projections were based on an ITIN usage analysis performed in 2012. We are using actual renewal data to update our projections and expect to accelerate future deactivations so that all ITINs issued prior to 2013 will be addressed within a timeframe more closely aligned with the schedule defined by the PATH Act.

In addition to developing a process to deactivate ITINs, we also developed a process to renew existing ITINs, which led to providing ITIN holders with the ability to renew their ITINs upon revalidation of their identity and foreign status. We modified our ITIN processing system to recognize when Form W-7, *Application for IRS Individual Taxpayer Identification Number*, was submitted as a renewal so that the existing ITIN record could be updated and pass that information on to other downstream systems used for processing returns and managing taxpayer accounts. Our efforts resulted in processing systems recognizing when deactivated ITINs were being used on tax returns and referred them for further review and/or correction.

We disagree with the recommendation to resume rejecting electronically filed tax returns containing an inactive or deactivated ITIN. The presence of such an ITIN on a return does not render it unprocessable, and is more appropriately addressed by staff in our Error Resolution Units. While there is an additional cost associated with manual correction of these errors, there are compensating benefits derived by retaining the return in electronic format, which is much less costly to process overall, than having taxpayers whose electronic returns are rejected switch to a paper filing. We agree with eight of the other nine recommendations and their attendant outcome measures.

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

Attachment



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

Attachment

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should modify its deactivation schedule to improve its timeliness in complying with the requirements of the PATH Act.

CORRECTIVE ACTION

We agree with this recommendation. The projections on which our original deactivation schedule is based are being updated with actual renewal volume data and the deactivation schedule will be updated to reflect a revised timeline commensurate with the schedule established by the Protecting Americans from Tax Hikes (PATH) Act of 2015.

IMPLEMENTATION DATE

July 15, 2018

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.

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 2

Revise computer programming to deactivate ITINs when the Form W 7 was rejected and the ITIN status field in the ITIN RTS is blank.

CORRECTIVE ACTION

We agree with this recommendation and will request the requisite programming changes to prevent Individual Taxpayer Identification Numbers (ITIN) from being omitted for deactivation based on the Real-Time System (RTS) ITIN status. Because Information Technology resources are limited and are subject to budgetary constraints and competing priorities, we cannot provide an implementation date.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

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



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

2

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 3

Deactivate the 89,105 ITINs we identified that should have been deactivated.

CORRECTIVE ACTION

We agree with this recommendation. Systemic solutions will be explored to process these ITIN deactivations through the RTS; however, if an automated solution is not timely or viable, the deactivations will be processed manually, which will be subject to resource availability.

IMPLEMENTATION DATE

January 15, 2019

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 4

Review the 1,298 tax returns for which the IRS incorrectly paid personal tax exemptions and refundable credits as a result of the ITIN not being deactivated to ensure that tax benefits paid in error are recovered.

CORRECTIVE ACTION

We agree with this recommendation. The affected returns will be reviewed and appropriate steps will be taken to recover any tax benefit found to have been paid in error.

IMPLEMENTATION DATE

August 15, 2018

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.



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

3

RECOMMENDATION 5

Revise the methodology used to identify ITINs for deactivation to include all ITINs used on prior tax year paper-filed tax returns and all ITINs that are corrected during IRS processing to ensure that ITINs are not erroneously deactivated.

CORRECTIVE ACTION

We disagree that a revision to our methodology for identifying ITINs for deactivation is necessary to address the finding associated with this recommendation. Only one percent of the deactivated ITINs were deactivated erroneously, and fewer than five percent of the filings each year are prior-year returns. Programming has been implemented to recognize ITINs used on paper returns that do not post, and in lieu of additional programming for such a small population of accounts, manual processes have been implemented to correct other erroneous deactivation conditions.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 6

Review and update existing policies to ensure that tax returns filed with inactive ITINs are accurately processed by employees in the IRS's Error Resolution System.

CORRECTIVE ACTION

We agree with this recommendation and have updated procedures to clarify for tax examiners, the procedures to be performed within the Error Resolution System (ERS) when an inactive ITIN is present on a tax return.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

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



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

4

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 7

Review the 9,818 tax returns for which the IRS did not identify inactive ITINs due to tax examiner error and ensure that taxpayers only receive the tax benefits to which they are entitled.

CORRECTIVE ACTION

We agree with this recommendation. The affected returns will be reviewed and appropriate steps will be taken to recover any tax benefit found to have been paid in error.

IMPLEMENTATION DATE

August 15, 2018

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 8

Reinstate computer programming to reject e-filed tax returns filed with inactive ITINs.

CORRECTIVE ACTION

We disagree with this recommendation. The use of a deactivated ITIN on a tax return does not render the return unprocessable. The ERS detects deactivated ITINs on both paper and electronic returns, and directs them to the appropriate treatment process, which can include the disallowance of tax credits or other benefits that require notification to the taxpayer. Treating electronic returns on par with paper returns, for this condition, reduces the chances the taxpayers will change from electronic to paper filing, which has a substantially higher processing cost than an electronic return.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A



Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met

5

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 9

Correct computer programming to ensure that the status field of all active ITIN accounts on the IRS Master File are updated when the ITIN is deactivated, including those in which the name of the individual who obtained the ITIN does not match the name on the tax account.

CORRECTIVE ACTION

We agree with this recommendation. Corrected programming was implemented on the Individual Master File (IMF) on March 9, 2017.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 10

Ensure that the IRS Master File accounts associated with the remaining 2,808 ITINs with an active IRS Master File Account are updated to reflect the inactive status of the ITIN.

CORRECTIVE ACTION

We agree with this recommendation. The affected accounts will be reviewed and actions will be taken to update the ITIN status and reconcile the differences between the IMF and the RTS.

IMPLEMENTATION DATE

April 15, 2018

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.