Interim Results of the 2018 Filing Season

April 5, 2018

Reference Number: 2018-40-028

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

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

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

1-800-366-4484

By Web:

www.treasury.gov/tigta/

Or Write:

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

Information you provide is confidential and you may remain anonymous.

INTERIM RESULTS OF THE 2018 FILING SEASON

Highlights

Final Report issued on April 5, 2018

Highlights of Reference Number: 201840003 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

The filing season, defined as the period from January 1 through mid-April, is critical for the IRS because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific laws or filing procedures. As of March 2, 2018, the IRS received approximately 61 million tax returns (with 95 percent electronically filed) and issued more than 48 million refunds totaling almost $148 billion.

WHY TIGTA DID THE AUDIT

The objective of this review was to provide selected information related to the IRS's 2018 Filing Season. TIGTA plans to issue the final results of our analysis of the 2018 Filing Season later in Calendar Year 2018.

WHAT TIGTA FOUND

In preparation for the 2018 Filing Season, the IRS updated its processes and procedures to address legislative requirements. The IRS began accepting and processing individual tax returns on January 29, 2018, as scheduled. On February 9, 2018, subsequent to the start of the filing season, Congress retroactively extended a number of tax provisions. The IRS is currently implementing the necessary changes to enable taxpayers to claim these benefits on their Tax Year 2017 tax return.

As of March 1, 2018, the IRS processed 1.5 million tax returns that reported nearly $7.7 billion in Premium Tax Credits that were either received in advance or claimed at the time of filing. Taxpayers received $829.3 million in Advanced Premium Tax Credits to which they were not entitled, of which $261.9 million was not required to be repaid. In addition, the IRS held 9.4 million returns with refunds totaling $46.9 billion with an Earned Income Tax Credit or Additional Child Tax Credit claim as required. Returns that were not identified by the IRS for additional review were released on or after February 15, 2018.

The IRS continues to expand its efforts to detect tax refund fraud. As of February 24, 2018, the IRS reported that it identified 9,557 tax returns with approximately $46 million claimed in fraudulent refunds and prevented the issuance of $22.2 million (48.3 percent) in fraudulent refunds. In addition, the IRS reports that it prevented approximately 7,376 fraudulent electronically filed tax returns as of February 28, 2018, and 1,442 paper-filed tax returns as of March 15, 2018, from being accepted into the processing system. Also, the IRS identified and confirmed 2,204 fraudulent tax returns involving identity theft as of February 28, 2018, and identified 13,964 prisoner tax returns for screening as of February 24, 2018.

The IRS continues to offer more self-assistance options that taxpayers can access 24 hours a day, seven days a week, including its IRS2Go app; YouTube channels; interactive self-help tools on IRS.gov; and Twitter, Tumblr, and Facebook accounts. In addition, as of March 17, 2018, taxpayers made approximately 33 million total attempts and 23.1 million net attempts to contact the IRS by calling the various customer service toll-free telephone assistance lines. The IRS reports that approximately 11.8 million calls were answered with automation. IRS assistors have answered nearly 6.4 million calls and provided a 78.1 percent Level of Service with a six-minute Average Speed of Answer.

Finally, during Fiscal Year 2018, the IRS plans to assist approximately 3 million taxpayers through face-to-face contact at the Taxpayer Assistance Centers.

WHAT TIGTA RECOMMENDED

This report was prepared to provide interim information only. Therefore, no recommendations were made in the report.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

April 5, 2018

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Interim Results of the 2018 Filing Season (Audit # 201840003)

This report presents the results of our review to evaluate whether the Internal Revenue Service (IRS) timely and accurately processed individual paper and electronically filed tax returns during the 2018 Filing Season. As part of our Fiscal Year 2018 Annual Audit Plan, we are conducting several ongoing audits that are related to specific issues in this report. This review addresses the major management challenge of Implementing Tax Law Changes. We will continue to provide IRS management with information on any areas of immediate concern throughout our audit process.

This report was prepared to provide information only. Therefore, we made no recommendations in the report. However, we provided IRS management officials with an advance copy of this report for review and comment prior to issuance.

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

Table of Contents

Appendices

Abbreviations

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

Background

The annual tax return filing season[1] is a critical time for the Internal Revenue Service (IRS) as this is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. One of the continuing challenges the IRS faces each year in processing tax returns is the implementation of new tax law changes as well as changes resulting from expired tax provisions. Before the filing season begins, the IRS must identify the tax law and administrative changes affecting the upcoming filing season. Once identified, the IRS must revise the various tax forms, instructions, and publications. It also must reprogram its computer systems to ensure that tax returns are accurately processed based on changes in the tax law. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, or result in incorrect taxpayer notices. The time frame and extensive actions the IRS must undertake to implement tax legislation is particularly challenging when tax law changes are enacted close to or after the start of the annual filing season.

Tax law changes affecting the 2018 Filing Season

- ***Disaster Tax Relief and Airport and Airway Extension Act of 2017***[2] (hereafter referred to as the Disaster Relief Act) – Enacted September 29, 2017, the provisions in this Act are specific to individuals living in declared areas affected by the Calendar Year 2017 hurricanes. This legislation includes the following changes for applicable individuals:
  - *Charitable Contributions* – Taxpayers making qualified contributions for disaster relief will generally not be subject to the percentage of Adjusted Gross Income (AGI) limitations and will also not be subject to the limit on overall itemized deductions.
  - *Personal Casualty Losses* – Taxpayers incurring personal casualty losses in one of the qualified hurricane disaster areas are allowed to calculate the loss differently and can alternatively take the loss as part of the standard deduction. The taxpayers can also elect to take that loss on their Tax Year 2016 tax return.
  - *Earned Income for the Earned Income Tax Credit (EITC) and Additional Child Tax Credit (ACTC)* – Allows taxpayers in the affected hurricane disaster areas who were displaced from their homes to elect to calculate the ACTC and the EITC based upon the earned income of the prior tax year (Tax Year 2016) if that earned income is higher than the earned income for Tax Year 2017.

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

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

- ***Tax Cuts and Jobs Act of 2017***[3] **–** Enacted December 22, 2017, the majority of the changes enacted in the Tax Cuts and Jobs Act are effective beginning in Tax Year 2018. However, the Act expanded two of the disaster relief provisions in the Disaster Relief Act to all individuals affected by a Presidentially declared disaster during Calendar Year 2016. For example, rules were modified for claiming personal casualty loss and for taking withdrawals from retirement plans. The most notable change affecting Tax Year 2017 individual returns is a temporary reduction from 10 percent to 7.5 percent in the minimum percentage for which medical expenses must exceed AGI to be eligible to claim a deduction. Due to the extensive nature of the law, the IRS has established a Tax Reform Implementation Office to lead a coordinated implementation of the tax reform provisions. This office is responsible for identifying areas of impact, and establishing and monitoring implementation action plans, including timeliness and communication with external and internal stakeholders, and appropriate risk mitigation. We have separate audits ongoing and planned focusing on the IRS's implementation of this legislation.[4]
- ***Bipartisan Budget Act of 2018***[5] – Enacted February 9, 2018, this Act includes tax law provisions that had expired as of December 31, 2016, but are now retroactively extended through December 31, 2017. The key provisions that will affect individual taxpayers include:
  - *Exclusion of Discharged Mortgage Debt from Gross Income* – Applies to discharges of indebtedness occurring after December 31, 2016, and before January 1, 2018.

[3] Pub L. 115-97, 131 Stat. 2054.
[4] Treasury Inspector General for Tax Administration, Audit No. 201840027, *Assessment of the IRS's Actions to Implement the Tax Cuts and Jobs Act* and Treasury Inspector General for Tax Administration, Audit No. 201840434, *Implementation of Tax Provisions of the Bipartisan Budget Act and Tax Cuts and Jobs Act (Continued Assessment).*
[5] Pub L. 115-123, 132 Stat. 64.

- *Allowance of a Mortgage Interest Deduction for amounts paid as Mortgage Insurance Premiums* – Applies to amounts paid or accrued after December 31, 2016, through December 31, 2017.
- *Qualified Tuition and Fees Deduction* – An "above-the-line" deduction of up to $4,000 of qualified tuition and related expenses. Applies to the taxable year beginning after December 31, 2016, and ending on December 31, 2017.
- *Nonbusiness Energy Property Credit* – A credit of 10 percent of the cost of homeowners' energy-efficient property improvements or the cost of residential energy property purchases, subject to limits based on the type of property and a lifetime limit of $500. Applies to property placed in service after December 31, 2016, and expires December 31, 2017.
- *Residential Energy Efficient Property Credit* – A credit of 30 percent of the cost of residential solar, fuel cell, small wind, and geothermal heat pump property placed in service after December 31, 2016, through December 31, 2021. The amount of the credit phases out in Calendar Years 2020 and 2021. The provision expires on December 31, 2021.

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

- ***Consolidated Appropriations Act of 2016***[7] – Enacted on December 18, 2015, this Act contains the Protecting Americans From Tax Hikes Act of 2015 (PATH Act), which extended numerous tax provisions that expired at the end of Tax Year 2014. Many of the provisions were permanently extended, while others were extended for either two or five years. The PATH Act also contains a number of provisions referred to as program integrity provisions intended to reduce fraudulent and improper EITC, Child Tax Credit (CTC), ACTC, and American Opportunity Tax Credit (AOTC) payments. The majority of the program integrity provisions were effective January 1, 2016, and affected the processing of Tax Year 2016 returns.
- ***The Patient Protection and Affordable Care Act (ACA)***[8] – Enacted March 23, 2010, its provisions provide incentives and tax breaks to individuals and small businesses to offset health care expenses. It also imposes penalties, administered through the tax code, for individuals and businesses that do not obtain health care coverage for themselves or their

[6] Treasury Inspector General for Tax Administration, Audit No. 201840027, *Assessment of the IRS's Actions to Implement the Tax Cuts and Jobs Act* and Treasury Inspector General for Tax Administration, Audit No. 201840434, *Implementation of Tax Provisions of the Bipartisan Budget Act and Tax Cuts and Jobs Act (Continued Assessment).*
[7] Pub. L. No. 114-113, 129 Stat. 2242 (2015).
[8] Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

employees. For the 2018 Filing Season, the IRS will continue its efforts to verify claims for the Premium Tax Credit (PTC). Taxpayers who purchase insurance through an Exchange are required to file a tax return and attach Form 8962, *Premium Tax Credit (PTC)*, to claim the PTC and reconcile any Advance PTC (APTC) payments that were made to an insurer on their behalf.

The ACA also requires individuals to report on their compliance to maintain minimum essential health insurance coverage. Individuals who do not maintain minimum essential coverage or qualify for an exemption from the requirement must make a Shared Responsibility Payment (SRP).

The interim 2018 Filing Season results are being presented as of several dates between February 12, 2018, and March 17, 2018, depending on when the data were available. We plan to issue our final assessment of the 2018 Filing Season later in Calendar Year 2018. This review was performed with information obtained from the Wage and Investment Division Headquarters located in Atlanta, Georgia; the Wage and Investment Division Submission Processing function offices in Cincinnati, Ohio; and the Information Technology organization Headquarters in Lanham, Maryland. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

Processing Tax Returns

In preparation for the 2018 Filing Season, the IRS made significant changes to its processes and procedures to address legislative requirements. During Calendar Year 2018, the IRS expects to receive approximately 153.7 million individual income tax returns (approximately 16.2 million paper filed and 137.5 million electronically filed (e-filed)). The IRS plans to process individual income tax returns at four tax processing centers during the 2018 Filing Season.[9] The IRS began accepting and processing individual tax returns on January 29, 2018.

However, on February 9, 2018, subsequent to the start of the filing season, Congress enacted the Bipartisan Budget Act of 2018 which retroactively extended a number of individual tax provisions for Tax Year 2017. This legislation includes 51 provisions, including extensions on expired tax provisions and modifications to disaster relief provisions. Thirty-one (61 percent) of the 51 tax provisions relate to deductions and credits that can be claimed on a 2017 tax return. Similar to the requirements of the Tax Cuts and Jobs Act, these 31 provisions will require the IRS to update publications, forms, instructions, and computer programing to allow taxpayers to take advantage of these provisions. Some taxpayers may have already filed tax returns using the previously expired tax law and may now need to amend their returns.

As of March 2, 2018, the IRS received approximately 61 million tax returns. Figure 1 presents comparative filing season statistics as of March 2, 2018.

Figure 1: Comparative Filing Season Statistics (as of March 2, 2018)

Cumulative Filing Season Data	2017 Actual	2018 Actual	% Change
Individual Income Tax Returns			
Total Returns Received (000s)	61,063	61,150	0.14%
Paper Returns Received (000s)	3,628	3,356	-7.50%
E-Filed Returns Received (000s)	57,435	57,794	0.63%
Practitioner Prepared (000s)	29,293	28,688	-2.07%
Home Computer (000s)	28,142	29,106	3.43%

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

Cumulative Filing Season Data	2017 Actual	2018 Actual	% Change
Free File (000s) *(also in the Home Computer total)*	1,169	1,189	1.71%
Fillable Forms (000s) *(also in the Home Computer total)*	106	100	-5.66%
Percentage of Returns E-Filed	94.1%	94.5%	0.43%
Refunds			
Total Number Issued (000s)	49,352	48,452	-1.82%
Total Dollars (in millions)	$148,832	$147,577	-0.84%
Average Dollars	$3,016	$3,046	0.99%
Total Number of Direct Deposits 000s)	44,822	43,549	-2.84%
Total Direct Deposit Dollars (in millions)	$140,661	$137,722	-2.09%

Source: Multiple 2018 Filing Season reports. Totals and percentages shown are rounded. The 2017 Filing Season figures are through March 3, 2017, and the 2018 Filing Season figures are through March 2, 2018.

Consolidation of tax processing centers

The IRS is continuing with its plans to consolidate tax processing centers. For the current processing year, the IRS will begin processing paper-filed business tax returns at the Kansas City, Missouri Tax Processing Center (traditionally an individual return processing center). The IRS will also begin processing paper-filed individual tax returns at the Ogden, Utah Tax Processing Center (traditionally a business return processing center). The IRS will migrate paper tax return processing from the Fresno, California Tax Processing Center beginning in Processing Year 2020. The migration of workload from the Austin Tax Processing Center will begin at a later date. At the conclusion of the consolidation, all paper-filed tax returns will be processed at the Kansas City or Ogden Tax Processing Centers.

As of March 3, 2018, the weekly Filing Season Statistics report shows that the Ogden and Austin Tax Processing Centers are not processing individual tax returns in a timely manner resulting in the need to transship 70,000 tax returns to the Kansas City Tax Processing Center on March 8, 2018. We are conducting a separate review of the IRS's consolidation of paper tax return processing and plan to issue our report later in Calendar Year 2018.[10]

[10] Treasury Inspector General for Tax Administration, Audit No. 201740039, *Business Tax Return Filing Submission Processing Consolidation*.

Implementation of Affordable Care Act Provisions

As of March 1, 2018, the IRS processed 1.5 million tax returns that reported nearly $7.7 billion in the PTCs that were either received in advance or claimed at the time of filing. Figure 2 provides the results from our analysis of tax returns filed and processed as of March 1, 2018.

Figure 2: PTC Statistics (as of March 1, 2018)

Total Tax Returns With a PTC	**1,513,377**
Total PTC Amount (includes the APTC and the PTC)	$7.7 billion
Total APTC Amount	$7.4 billion
Total PTC Claimed at Filing in Excess of the APTC	$303.3 million
Tax Returns on Which the PTC Equals the APTC Received	
Tax Returns	74,990
Total PTC Amount	$578.8 million
Tax Returns With an Additional PTC Amount (taxpayer is entitled to more PTC than what was received in the APTC)	
Total Tax Returns	572,705
Total PTC Amount (includes the APTC and the PTC)	$3.1 billion
Total APTC Amount	$2.8 billion
Total PTC Claimed at Filing in Excess of the APTC	$303.3 million
Tax Returns With Excess APTC Payments (taxpayer receives more APTC than the PTC entitled and has to repay)	
Total Tax Returns	865,682
Total PTC Amount	$3.2 billion
Total APTC Amount	$4.0 billion
Total APTC Reported in Excess of the PTC	$829.3 million
Total APTC Above the Repayment Limit (not repaid)	$261.9 million
Total APTC Below the Repayment Limit (repaid)	$567.4 million

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of Individual Master File posted tax return information as of March 1, 2018.

Minimum essential coverage and SRP requirements

As of March 1, 2018, the IRS received approximately 43.9 million tax returns reporting that all members of the taxpayer's family maintained minimum essential coverage as required by the ACA. Nearly 4.4 million taxpayers filed a return with a Form 8965, *Health Coverage Exemptions*, attached indicating that at least one taxpayer on the tax return is exempt from the minimum essential coverage requirement. Additionally, approximately 1.5 million tax returns included a self-reported SRP totaling $993.9 million for not maintaining required coverage.

For Processing Year 2018, the IRS will not accept e-filed returns on which taxpayers do not check the coverage box, do not attach a Form 8965, and do not report a SRP, *i.e.*, silent returns. The IRS will provide a message indicating the taxpayer must address the household's health care status. As of February 28, 2018, there were 104,641 e-filed tax returns that were rejected for not addressing their health care coverage status. Paper-filed silent returns will be identified for manual review. The IRS will research the return for an item that indicates the taxpayer or members of the taxpayer's family had health insurance coverage, such as Form 8885, *Health Coverage Tax Credit*, or Form W-2, *Wage and Tax Statement*, Box 12 with Code DD and an amount.[11] If an indication of coverage is not found, the IRS will suspend processing and send a letter asking the taxpayer to address the household's health care coverage status. If no response is received, the IRS will calculate and assess the SRP. As of February 28, 2018, the IRS had identified 140,876 paper-filed tax returns for additional review.

It should be noted that the Tax Cuts and Jobs Act, enacted in December 2017, reduced the amount of the SRP to $0 for individuals who do not maintain minimum essential coverage beginning in Tax Year 2019.

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

We are continuing to evaluate the IRS's processes to implement the integrity provisions of the PATH Act. The following presents our results to date:

- ***Processes to hold refunds that include the EITC and the ACTC until February 15, 2018*** – The IRS reports that 9.4 million returns with an EITC or ACTC claim processed as of February 15, 2018, with refunds totaling $46.9 billion were held as required. These refunds included the EITC totaling $24.7 billion and the ACTC totaling $9.4 billion. In comparison last year, as of March 2, 2017, 10.3 million tax returns with refunds totaling $51.2 billion were held until February 15, 2017. These refunds included the EITC totaling $28.4 billion

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

and the ACTC totaling $10.3 billion.[12] In addition, returns that were not identified by the IRS for additional review were released on or after February 15, 2018.

A prior TIGTA review[13] identified that although the IRS established processes to hold all refunds that included the EITC or the ACTC until February 15, 2017, as required, processes do not ensure that all EITC and ACTC claims with unsupported income are reviewed before refunds are paid. In addition, TIGTA found that the IRS is not using Forms 1099-MISC, *Miscellaneous Income*, that report nonemployee compensation to validate reported income. Since the issuance of this prior report, IRS management has stated that they are using select information from Form 1099-MISC during Processing Year 2018, including using data from the form in filters to detect potential identity theft.

TIGTA will continue to evaluate the IRS's implementation of this integrity provision and provide further results in our final Filing Season 2018 report later this calendar year.

- ***Receipt of employer-filed Forms W-2*** – The PATH Act moved the filing date for Forms W-2 to January 31st. This provision was enacted to enable the IRS to validate the income used to support EITC and ACTC claims before refunds are issued. In February 2018, we reported that the IRS did not always receive employer-filed Forms W-2 prior to releasing EITC and ACTC refunds on February 15, 2017.[14] For example, the IRS received no third-party Forms W-2 prior to refunds being released for 660,141 of the more than 1.4 million tax returns with an EITC or ACTC claim that were filed prior to February 15, 2017. These returns had refunds totaling almost $3.7 billion.

  As of February 12, 2018, the IRS received 224 million Forms W-2 filed by 4.4 million employers. This compares to 215 million Forms W-2 filed by 4 million employers as of February 16, 2017. We will continue to monitor the IRS's receipt of employer-filed Forms W-2 throughout the filing season.

- ***Processes to ensure that an educational institution Employer Identification Number (EIN) is provided when claiming the AOTC*** – The IRS has not established processes to identify all AOTC claims at the time tax returns are filed for which the required EIN is not provided. The PATH Act modified the AOTC to require individuals claiming the credit to provide the EIN of the educational institution. The IRS's authority to systemically deny claims for which the EIN is not provided is already covered under existing math error authority. Our analysis of tax returns processed during the 2017 Filing Season as of May 4, 2017,[15] with an

[12] Processing Year 2018 started on January 29, 2018, whereas Processing Year 2017, started on January 23, 2017. This contributed to the decreased number of refunds held and the lower dollar amount of credits claimed.
[13] TIGTA, Ref. No. 2018-40-015, *Employer Noncompliance With Wage Reporting Requirements Significantly Reduces the Ability to Verify Refundable Tax Credit Claims Before Refunds Are Paid* (Feb. 2018).
[14] TIGTA, Ref. No. 2018-40-015, *Employer Noncompliance With Wage Reporting Requirements Significantly Reduces the Ability to Verify Refundable Tax Credit Claims Before Refunds Are Paid* (Feb. 2018).
[15] TIGTA, Ref. No. 2018-40-012, *Results of the 2017 Filing Season* (Jan. 2018).

AOTC claim identified more than 1.2 million claims totaling $1.9 billion in the AOTC for which the institution EIN was not provided. Although the IRS has the authority to systemically deny these claims, no actions were taken. We recommended that the IRS establish processes to use its math error authority to deny all e-filed and paper-filed AOTC claims for which the taxpayer does not provide the institution EIN for each student claimed on the return. Although the IRS agreed with this recommendation, IRS management stated that procedures to identify these type of claims will not be implemented until at least Processing Year 2019. IRS management stated that due to limited information technology resources, budget constraints, and competing priorities, they could not provide an implementation date. We will quantify the number of tax returns filed claiming the AOTC without an educational institution EIN in our final 2018 Filing Season report.

- ***Processes to ensure that individuals who have a recertification indicator on their tax account file the required form when claiming the EITC, the ACTC, and/or the AOTC*** – The PATH Act expanded the refundable credit recertification requirements to include the CTC, the ACTC, and the AOTC, including the allowance of math error authority. Individuals whose credit claim was denied for certain reasons or who were banned from receiving a credit must include a Form 8862, *Information To Claim Certain Refundable Credits After Disallowance,* with their tax return the next time they claim the credit.

  The IRS has established processes to ensure that individuals who have a recertification indicator on their tax account file a Form 8862 if the taxpayer claims the credit that had been previously denied. Our review of the IRS's e-file reject processes found that the IRS has established processes to identify taxpayers who have a recertification indicator on their account who file an EITC, CTC/ACTC, or AOTC claim without a Form 8862. For example, if the recertification indicator is on the account, the IRS will reject an e-filed tax return that is claiming one of these credits but does not have Form 8862 present. As of February 27, 2018, the IRS has rejected 344,636 e-filed returns claiming the EITC, 28,229 e-filed returns claiming the ACTC, and 3,657 e-filed tax returns claiming the AOTC.[16] In addition, the IRS will stop paper-filed returns for manual review as a result of a missing Form 8862. We will continue to evaluate and report on these controls in our final 2018 Filing Season report.

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

We are assessing the accuracy of the IRS's processing of individual tax returns affected by key tax provisions included in the Disaster Relief Act and the Tax Cuts and Jobs Act. To date, we have completed our review of IRS efforts to timely and accurately update IRS tax forms, schedules, publications, and information on IRS.gov.

---

[16] A tax return could have been rejected for more than one credit.

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

  Our review of tax forms and publications related to the various disaster tax relief provisions identified that Publication 976, *Disaster Relief*, a key publication the IRS provides to assist taxpayers with disaster relief information, was not made available to taxpayers until March 1, 2018. As previously indicated, legislation related to disaster relief was enacted in both December 2017 and February 2018. These late changes contribute to the delay in finalizing guidance to taxpayers in this area. The following is a summary of the IRS's efforts to update tax forms, publications, and processes for key disaster relief provisions:

  - *Charitable Contributions* – The IRS has developed processes to allow increased charitable contributions related to a disaster area. In addition, we found that the 2017 Instructions for Schedule A (Form 1040), *Itemized Deductions* and Publication 526, *Charitable Contributions*, have been updated with applicable information.

  - *Personal Casualty Losses* – Form 4684, *Casualties and Thefts*, and instructions as well as Publication 547, *Casualties, Disasters and Thefts*, have been updated with applicable information. In addition, the IRS has developed processes to reject e-filed tax returns if the proper form to claim the personal casualty loss is not attached to the tax return. As of March 1, 2018, 89 tax returns have been rejected due to this rule.

  - *Election to use prior year earned income to claim the EITC and the ACTC* – The instructions for Forms 1040, *U.S. Individual Income Tax Return*; 1040-A, *U.S. Individual Income Tax Return;* 1040-EZ, *Income Tax Return for Single and Joint Filers With No Dependents*; and Form 8812, *Child Tax Credit*; as well as Publication 596, *Earned Income Credit (EIC)*, and Publication 972, *Child Tax Credit*, have been updated with applicable information. These form instructions and publications include guidance informing taxpayers how to notate their return to indicate they are electing to use their prior-year earned income amount to claim these credits.

  - *Qualified Retirement Plan Withdrawals* – Form 8915B, Q*ualified 2017 Disaster Retirement Plan Distributions and Repayments*, was finalized. In addition, the related instructions for Form 8915B and Publication 560, *Retirement Plans for Small Business*, have been finalized.

  - *Employee Retention Credit* – Form 5884-A, *Credit for Affected Disaster Area Employers (for Employers Affected by Hurricane Harvey, Irma, or Maria or Certain California Wildfires)*, and the related instructions were finalized. The IRS has developed processes to reject e-filed tax returns claiming the Employee Retention

Credit if key information, including the Form 5884-A, is not attached as required. As of March 1, 2018, 13 tax returns have been rejected due to these processes.

We are continuing to evaluate the IRS's implementation of these disaster relief provisions and will include the results of our assessment in our final 2018 Filing Season report later this calendar year. In addition, we are conducting a separate audit of the IRS's efforts to assist victims of Hurricanes Harvey, Irma, and Maria.[17] We plan to issue our report later this fiscal year.

- ***Tax Cuts and Jobs Act*** **–** The Tax Cuts and Jobs Act temporarily reduced the minimum percentage for which medical expenses must exceed the AGI to be eligible to claim a deduction from 10 percent to 7.5 percent. Our review of Form 1040, Schedule A, and related instructions, showed that the IRS adequately informed taxpayers of this change; however, Publication 502, *Medical and Dental Expenses*, has not been updated as of March 21, 2018, to reflect the change although it does have a link directing the taxpayer to IRS.gov where updated information is available. In addition, our review of more than 3.1 million tax returns filed as of March 14, 2018, for which individuals claimed a medical expense deduction, found that the IRS has updated its programming to allow deductions for expenses that exceed the AGI by as low as 7.5 percent. We have separate audits ongoing and planned focusing on the IRS's implementation of this legislation.

- ***Bipartisan Budget Act*** **–** The Bipartisan Budget Act retroactively extended tax law provisions that had expired as of December 31, 2016, through Tax Year 2017. Prior to the publications being updated with extender information, they referred taxpayers to IRS.gov/extenders for updates on recent legislation. On March 12, 2018, we alerted IRS that some of the links to the extenders were not working or were not updated correctly. The IRS took action on March 13, 2018, to correct these items. The following is a summary of the IRS's efforts to update tax forms, publications, and processes for key extended tax provisions:

  - *Exclusion of Discharged Mortgage Debt from Gross Income* – Form 982, *Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)*, has been updated to reflect the extension of this exclusion. In addition, the IRS has updated its processes to allow the filing of tax returns claiming this exclusion. However, two tax publications[18] have not been updated as of March 21, 2018, to reflect the extender legislation.

  - *Allowance of a Mortgage Interest Deduction for amounts paid as Mortgage Insurance Premiums* – Schedule A and related instructions have been updated to reflect the extension of this deduction. In addition, the IRS has updated its processes

[17] TIGTA, Audit No. 201740042, *Assistance to Victims of Hurricanes Harvey, Irma, and Maria.*

[18] Publication 523, *Selling Your Home*, and Publication 4681, *Cancelled Debts, Foreclosures, Repossessions, and Abandonments*.

to allow the filing of tax returns claiming this deduction. However, as of March 21, 2018, two tax publications have not been updated to reflect the extender legislation.[19] We determined two business rules were not reactivated to reflect the extender legislation and notified the IRS on February 27, 2018. The IRS agreed and took action to correct these rules on March 15, 2018.

- o *Qualified Tuition and Fees Deduction* – Form 8917, *Tuition and Fees Deduction*, has been updated to reflect the extended deduction. In addition, the IRS has updated its processes to allow the filing of tax returns claiming this deduction. However, Publication 970, *Tax Benefits for Education*, has not been updated as of March 21, 2018.
- o *Nonbusiness Energy Property Credit and Residential Energy Efficient Property Credit* – Form 5695, *Residential Energy Credits*, and related instructions have been updated to reflect the extended credits. However, as of March 21, 2018, Publication 530, *Tax Information for Homeowners*, has not been updated.

We are continuing to evaluate the IRS's implementation of these extended tax provisions and will include the results of our assessment in our final 2018 Filing Season report later this year. We also have a separate audit assessing IRS efforts to implement provisions included in the Bipartisan Budget Act.[20]

Detecting and Preventing Tax Refund Fraud

As of February 24, 2018, the IRS reported that it identified 9,557 tax returns with approximately $46 million claimed in fraudulent refunds and prevented the issuance of $22.2 million (48.3 percent) of those refunds. Figure 3 shows the number of fraudulent tax returns identified by the IRS for Processing Years 2015 through 2017, as well as the refund amounts that were claimed and stopped.

[19] Publication 530, *Tax Information for Homeowners*, and Publication 936, *Home Mortgage Interest Deduction*.
[20] TIGTA, Audit No. 201840434, *Implementation of Tax Provisions of the Bipartisan Budget Act and Tax Cuts and Jobs Act (Continued Assessment).*

Figure 3: Fraudulent Returns and Refunds Identified and Stopped in Processing Years 2015 Through 2017

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

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

The decrease in the number of fraudulent tax refunds the IRS detects and stops is attributable to the IRS's efforts to expand processes to prevent fraudulent tax returns from ever entering the tax processing system, *i.e.*, rejecting e-filed tax returns and preventing paper-filed tax returns from posting. For example, as of February 21, 2018, the IRS had locked approximately 35.7 million taxpayer accounts of deceased individuals. The locking of a tax account results in the rejection of an e-filed tax return and the prevention of a paper-filed tax return from posting to the Master File if the Social Security Number (SSN) associated with a locked tax account is used to file a tax return. According to the IRS, as of February 28, 2018, it had rejected approximately 7,376 fraudulent e-filed tax returns, and as of March 15, 2018, it had stopped 1,442 paper-filed tax returns from posting to the Master File.

Detection of tax returns involving identity theft

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

Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. The IRS attempts to contact the individual who filed the tax return and, if the individual's identity cannot be confirmed, the IRS removes the tax return from processing. This prevents the issuance of many fraudulent tax refunds. As of February 28, 2018, the IRS reported that it had identified 1.4 million tax returns with refunds totaling more than $6.9 billion for additional review as a result of the identity theft filters. As of this same date, the IRS had confirmed 2,204 fraudulent tax returns and prevented the issuance of $5.6 million in fraudulent tax refunds. Figure 4 shows the number of identity theft tax returns the IRS identified and confirmed as fraudulent in Processing Years 2016 through 2018.

Figure 4: Identity Theft Tax Returns Confirmed As Fraudulent in Processing Years 2016 Through 2018 (as of February 28, 2018)

Processing Year	Number of Identity Theft Returns[21]
2016	31,578
2017	14,068
2018	2,204

Source: IRS fraudulent tax return statistics for Processing Year 2016 (as of February 29, 2016); Processing Year 2017 (as of March 2, 2017); and Processing Year 2018 as of February 28, 2018.

In Processing Year 2018, the IRS continued its voluntary program in which 18 payroll providers were requested to submit Forms W-2 directly to the IRS by January 31, 2018. The IRS uses the identity theft models to compare this accelerated Form W-2 information as well as Forms W-2 received from the Social Security Administration to the tax return at the time the tax return is processed for identity theft detection. The IRS stated that as of February 22, 2018, it selected 172 tax returns for identity theft treatment based upon the early submission of these Forms W-2.

Finally, in response to concerns raised by TIGTA regarding multiple refunds going to the same address or bank account, the IRS continues to use its clustering filter tool to group tax returns based on characteristics that include the address, zip code, and bank routing numbers. For the tax returns identified, the IRS applies a set of business rules in an attempt to ensure that legitimate taxpayers are not included. Tax returns identified are held from processing until the IRS can verify the taxpayer's identity. As of March 1, 2018, the IRS reports that, using this tool, it identified 73 tax returns and prevented the issuance of approximately $410,000 in fraudulent tax refunds.

We are conducting a separate review of the IRS's efforts to detect and prevent identity theft and plan to issue our report later this fiscal year.[22]

---

[21] According to IRS management, the decrease in confirmed identity theft returns as fraudulent is because the filing season started one week later this year than the 2017 Filing Season and two weeks later than the start of the 2016 Filing Season.
[22] TIGTA, Audit No. 201740007, *Effectiveness of the Internal Revenue Service's Efforts to Detect and Prevent Identity Theft*.

Processing of paper tax returns to identify employment identity theft

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

In June 2017, TIGTA reported that IRS processes do not identify employment identity theft when processing paper tax returns.[23] We recommended that the IRS develop processes and procedures to identify ITIN/SSN mismatches on paper tax returns and add an employment identity theft marker to the valid SSN owners' tax accounts. The IRS agreed with our recommendation and stated that it is implementing a process to identify ITIN/SSN mismatches on paper-filed returns and forward those returns to the IRS's Error Resolution function for special handling.[24] As of February 28, 2018, 132,266 paper-filed tax returns were identified with an ITIN/SSN mismatch and referred to the Error Resolution function. Internal guidelines require tax examiners to capture the SSN from the attached Form W-2 into the tax account record.

We continue to evaluate the actions taken by the IRS to address our recommendation including ensuring that tax examiners add an employment identity theft marker to the tax account of the legitimate taxpayer whose personal information was stolen to gain employment. Without the employment identity theft marker on their tax accounts, victims can be subjected to additional burden when the IRS processes their tax returns. Furthermore, these individuals will not receive notices from the IRS informing them that their SSN was used by another person to obtain employment and the steps they should take to protect themselves from financial harm.

Screening of prisoner tax returns

As of February 24, 2018, the IRS reported that it identified for screening 13,964 potentially fraudulent tax returns filed by prisoners.[25] Figure 5 shows the number of prisoner tax returns identified for screening in Processing Years 2017 and 2018.

[23] TIGTA, Ref. No. 2017-40-031, *The Number of Employment-Related Identity Theft Victims Is Significantly Greater Than Identified* (June 2017).
[24] The IRS will capture the SSN information from the attached Form W-2 when it is different from the ITIN used on that the front of the tax return by either the primary or secondary taxpayer.
[25] Tax returns filed using a prisoner's name and SSN.

Figure 5: Prisoner Tax Returns Identified for Screening in Processing Years 2017 and 2018 (as of February 24, 2018)

Processing Year	Number of Prisoner Tax Returns Identified for Screening
2017	13,962
2018	13,964

Source: IRS fraudulent tax return statistics for Processing Years 2017 and 2018 as of February 24, 2018.

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

Providing Customer Service

The IRS provides assistance to millions of taxpayers via the telephone, its website (IRS.gov), social media platforms, as well as face-to-face assistance at its Taxpayer Assistance Centers (TAC) and Volunteer Income Tax Assistance sites. The IRS is continuing its trend to depend more on technology-based services and external partners by directing taxpayers to the most cost-effective IRS or partner channel available to provide the needed service. The IRS notes that this approach allows it to focus limited toll-free and walk-in resources on customer issues that can be best resolved with person-to-person interaction. By using this approach, the IRS believes that it is able to improve its service to taxpayers by addressing and resolving more complex matters such as assistance to identity theft victims and people with tax account issues.

The various self-assistance options the IRS provides enable taxpayers to access the information they need 24 hours a day, seven days a week. The most notable self-assistance option is the IRS's public Internet site, IRS.gov. The IRS has been actively steering taxpayers to its website as the best source for answers to their tax questions. The IRS reports 242.9 million visits to IRS.gov this filing season as of March 3, 2018.

The IRS also continues to expand its online tools available on IRS.gov. These tools allow taxpayers to more effectively research tax law, check on the status of their refund, and evaluate withholding relative to the Tax Cuts and Jobs Act. For example:

- ***Interactive Tax Assistant*** – This tool is a tax law resource that takes taxpayers through a series of questions and provides them with responses to basic tax law questions. The IRS reports that from January 1 through March 1, 2018, a total of 639,266 requests had been completed.
- ***Where's My Refund?*** – This tool allows taxpayers to check the status of their refunds using the most up-to-date information available to the IRS. The IRS reports that as of March 3, 2018, there have been 187.8 million uses of the tool.
- ***Withholding Calculator*** – This calculator provides taxpayers with the ability to determine tax liability and withholding under the Tax Cuts and Jobs Act. The calculator also provides taxpayers with a suggestion to the number of withholding allowances they should claim for the remainder of the tax year.
- ***IRS Direct Pay*** – This secure service can be used to pay taxes for Form 1040 series, estimated taxes, or other associated forms directly from a checking or savings account at no cost to the taxpayer.
- ***Get Transcript*** **–** This application allows taxpayers to view and download their tax information, such as account transactions, line-by-line tax return information, and income reported to the IRS.

Finally, the IRS offers taxpayers the ability to obtain information and interact with the IRS using their mobile devices. For example, the IRS offers IRS2Go and uses various forms of social media including YouTube, Twitter, Facebook, and Tumblr. As of March 1, 2018, the IRS reports that the IRS2Go mobile application had 5.6 million active users. As of March 1, 2018, there have been 393,447 views of IRS YouTube videos and 80,750 Facebook followers. As of March 2, 2018, there have been a total of 156,733 Twitter followers. Also, as of March 6, 2018, there have been a total of 10,555 Tumblr followers.

Toll-free telephone level of assistance continues to increase

As of March 17, 2018, taxpayers made approximately 33 million total attempts and 23.1 million net attempts[26] to contact the IRS by calling the various customer service toll-free telephone assistance lines. The IRS reports that 11.8 million calls were answered with automation, and telephone assistors answered nearly 6.4 million calls and provided a 78.1 percent Level of

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

Service with a six-minute Average Speed of Answer. The IRS forecasts an 80 percent Level of Service for the 2018 Filing Season.

Figure 6 shows a comparison of IRS toll-free telephone statistics as of March 17, 2018, for Fiscal Years 2017 and 2018.

Figure 6: Toll-Free Filing Season Telephone Statistics for Fiscal Years 2017 and 2018 (as of March 17, 2018)

Statistic	Fiscal Year	
	2017	2018
Assistor Calls Answered	6,188,619	6,412,424
Level of Service	77.1%	78.1%
Average Speed of Answer (Minutes)	6.9	5.9

Source: IRS management information reports as of March 17, 2018.

We have a separate audit assessing the IRS's telephone performance measures.[27]

Efforts to streamline assistance at the TACs result in more taxpayers being assisted

Each year, many taxpayers seek assistance from one of the IRS's 363 walk-in offices, called the TACs. Although the IRS reports having 363 TACs for the 2018 Filing Season, 24 TACs are not open as they have not been staffed. The IRS indicated that budget cuts and its strategy of appointment service at the TACs, along with continued promotion of alternative service options, will result in the reduction of the number of employees to assist taxpayers at the TACs.

The estimated number of taxpayers the IRS will assist at its TACs will continue to decrease this fiscal year. The IRS plans to assist approximately 3 million taxpayers at its TACs in Fiscal Year 2018, an approximately 9 percent decrease from Fiscal Year 2017. Figure 7 shows the number of contacts by product line at the TACs for Fiscal Years 2017 and 2018.

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

Figure 7: TAC Contacts for Fiscal Years 2017 and 2018 (in millions)

Contacts/Product Lines	Fiscal Year 2017	Fiscal Year 2018 Projections
Tax Accounts Contacts	2.2	2.0
Forms Contacts	.09	0.1
Other Contacts[28]	1.0	1.0
Tax Law Contacts	.03	<.05
Totals	**3.3**	**3.0**

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

For the 2018 Filing Season, the IRS has transitioned all the TACs to appointment service. The IRS indicated that it initially began providing services at the TACs by appointment in an attempt to alleviate long lines that sometimes occur at many TACs and to help ensure that taxpayers' issues are timely resolved. As a further service to taxpayers, the IRS will attempt to resolve the taxpayer's question or provide the taxpayer with information on alternative services when they call to schedule an appointment. The IRS reports that as of February 28, 2018,[29] IRS employees answered nearly 1 million calls to schedule an appointment with 492,000 that necessitated the taxpayer schedule an appointment and visit a TAC. The IRS was able to assist an additional 466,000 taxpayers who called for an appointment without the taxpayer having to come to the TAC. The IRS noted that taxpayers who travel to a TAC without an appointment are assisted if there is availability. As of February 28, 2018, the IRS reported that it provided assistance to nearly 96,000 taxpayers with issues that should have required an appointment. Overall, the IRS reports 1.5 million taxpayers were provided service.

The IRS also continues to offer Virtual Service Delivery, which integrates video and audio technology to allow taxpayers to see and hear an IRS assistor located at a remote TAC, giving taxpayers "virtual face-to-face interactions" with assistors. According to the IRS, taxpayers can use this technology to obtain many of the TAC's services. The goal for the Virtual Service Delivery Program is to enhance the use of IRS resources, optimize staffing, and balance workload. For the 2018 Filing Season, the IRS is offering Virtual Service Delivery at 35 partner site locations, compared to 28 locations the previous year. The IRS also plans to add 12 Virtual

[28] Other Contacts includes but is not limited to: accepting Form 2063, *U.S. Departing Alien Income Tax Statement;* date-stamping tax returns brought in by taxpayers; screening taxpayers for eligibility of service; scheduling appointments (only in Fiscal Year 2015); and helping taxpayers with general information such as addresses and directions to other IRS offices or other Federal Government agencies.
[29] For Fiscal Year 2018 – October 1, 2017, through February 28, 2018.

Service Delivery sites during Calendar Year 2018. The IRS reports that as of February 28, 2018,[30] a total of 67 taxpayers have used the service.

Finally, the IRS has an initiative to co-locate with the Social Security Administration to assist taxpayers. For the 2018 Filing Season, the IRS has placed employees in four Social Security Administration locations. The IRS reports that as of February 28, 2018, a total of 560 taxpayers have used the service.

TIGTA has a separate audit to assess the IRS's efforts to expand customer service options to taxpayers seeking face-to-face assistance.[31]

The volume of tax returns prepared at Volunteer Program sites decreased slightly in Fiscal Year 2017

The Volunteer Program continues to play an important role in the IRS's efforts to improve taxpayer service and facilitate participation in the tax system. It provides no-cost Federal tax return preparation and electronic filing (e-filing) to underserved taxpayer segments, including low-income, elderly and disabled, rural, limited-English-proficient, and Native Americans. As of March 4, 2018, approximately 1.5 million tax returns have been prepared at approximately 11,000 Volunteer Program sites nationwide. Figure 8 shows the number of tax returns prepared by volunteers from Fiscal Years 2015 through 2017.

Figure 8: Volunteer Program Statistics for Fiscal Years 2015 Through 2017

	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	% Change (Fiscal Year 2016 to Fiscal Year 2017)
Tax Returns	3,756,707	3,813,411	3,558,491	-6.7%
Volunteers	90,826	89,121	87,214	-2.1%
Sites	12,057	11,831	11,469	-3.1%

Source: IRS management information system containing Fiscal Years 2015 through 2017 information. Percentages are rounded.

Accounts Management function's over-aged inventory decreased from Calendar Year 2016 to Calendar Year 2017

As of February 24, 2018, the IRS reports approximately 856,785 cases in its over-aged inventory. In comparison for the 2017 Filing Season, the IRS reported 538,890 cases in its over-aged inventory as of February 25, 2017. Accounts Management function inventory

[30] For Fiscal Year 2018 – October 1, 2017, through February 28, 2018.
[31] TIGTA, Audit No. 201840028, *Strategy to Assist Taxpayers Who Seek Face-to-Face Assistance*.

includes but is not limited to amended tax returns, responses to taxpayer notices, and identity theft cases and is generally considered over-aged when it has been in inventory for more than a designated number of calendar days. Staff responsible for working taxpayer correspondence are divided between working taxpayer correspondence and staffing the customer service telephone lines.

The IRS significantly reduced total over-aged inventory from 702,437 cases at the end of Processing Year 2016 to 463,489 cases at the end of Processing Year 2017. Figure 9 provides a comparison of the Accounts Management function inventory for Processing Years 2014 through 2017.

Figure 9: Comparison of Accounts Management Function Inventory As of the End of Processing Years 2014 Through 2017

	2014	2015	2016	2017
Total Inventory	2,542,125	2,890,392	1,669,543	1,319,870
Over-Aged Volume	1,168,181	1,318,446	702,437	463,489
Percentage Over-Aged	46.0%	45.6%	42.1%	35.1%

Source: IRS Accounts Management Inventory Report – Inventory Age Reports.

Improvements have been made in the IRS's issuance of Identity Protection Personal Identification Numbers (IP PIN) to victims of identity theft

Tax-related identity theft continues to be one of the biggest challenges facing the IRS. To provide relief to victims of identity theft, the IRS began issuing IP PINs to eligible taxpayers in Fiscal Year 2011. An IP PIN is a six-digit number assigned to eligible taxpayers that allows their tax returns/refunds to be processed without delay and helps prevent the misuse of their SSN on fraudulent income tax returns. In preparation for the 2018 Filing Season, the IRS issued nearly 3.5 million IP PINs to taxpayers that were victims of identity theft.[32]

In September 2014, TIGTA reported that the IRS did not provide an IP PIN to all taxpayers confirmed by the IRS as being a victim of tax-related identity theft.[33] Specifically, we identified 532,637 taxpayers who did not receive an IP PIN despite the IRS confirming that they were a victim of identity theft. We recommended the IRS consistently issue IP PINs to victims of identity theft and document the criteria used to identify or exclude taxpayers from receiving an IP PIN each year. The IRS agreed with our recommendations and stated it will continue to analyze accounts and adjust its criteria for issuing IP PINs annually.

[32] This includes individuals the IRS has confirmed as identity theft victims as well as those the IRS suspects of being an identity theft victim.
[33] TIGTA, Ref. No. 2014-40-086, *Identity Protection Personal Identification Numbers Are Not Provided to All Eligible Taxpayers* (Sept. 2014).

As of December 14, 2017, there were more than 3.7 million tax accounts the IRS considered to be confirmed victims of identity theft, although 606,859 (16 percent) of the more than 3.7 million accounts did not require a notice. Taxpayers may not require a notice if the IRS has an indication that they were deceased or did not have a usable address. Of the more than 3.1 million remaining tax accounts requiring a notice with an IP PIN, only 90 (0.01 percent) did not receive such a notice. These 90 taxpayers did not receive a notice because their account was improperly merged to another Taxpayer Identification Number. The IRS confirmed that these accounts should have received an IP PIN and are currently looking into the issue to find a resolution.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate whether the IRS timely and accurately processed individual paper-filed and e-filed tax returns during the 2018 Filing Season.[1] To accomplish our objective, we:

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

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

A. Identified volumes of paper-filed and e-filed tax returns received through March 2, 2018, from the IRS Weekly Filing Season reports that provide a year-to-date comparison of scheduled return receipts to actual return receipts.

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

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

A. Determined if processes were established to identify taxpayers who must recertify after claiming improper, reckless, or fraudulent CTC, ACTC, and AOTC claims, as required by the PATH Act, Section 208.

B. Determined if processes were established for Disaster Relief Act provisions that affect taxpayers, such as making qualified charitable contributions for disaster relief not subject to the percentage of AGI limitations; taxpayers incurring personal casualty losses in one of the qualified hurricane disaster areas; taxpayers electing to claim the EITC and the ACTC based on the prior year earned income (Tax Year 2016); and those taxpayers claiming the Employee Retention Credit.

C. Determined if processes were established for the reduction of the minimum percentage for which medical expenses must exceed the AGI to be eligible to claim a deduction from 10 percent to 7.5 percent.

[1] See Appendix IV for a glossary of terms.

D. Determined if processes were established for the tax extenders affecting individual taxpayers, such as the Discharge of Indebtedness on Principal Residence Excluded from Gross Income, Tuition and Fees deduction, Mortgage Interest Premiums deduction, Nonbusiness Energy Property Credit, and Residential Energy Efficient Property Credit.

IV. Identified and reviewed specific tax law changes to ensure that they are accurately reflected in all applicable forms, instructions, and publications.

V. Identified online self-help applications provided by the IRS and ensured that the information and results provided are accurate.

VI. Reviewed statistics related to the IRS's implementation of the ACA tax provisions.

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

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

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

X. Identified results for the IRS TAC Program.

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

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

XIII. Monitored the Accounts Management function correspondence inventory.

Data validation methodology

During this review, we obtained extracts from the IRS's Individual Master File and Individual Return Transaction File databases for Processing Year 2018 that were available on TIGTA's Data Center Warehouse. Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected random samples of each extract and verified that the data in the extracts were the same as the data captured in the IRS's Integrated Data Retrieval System. We also performed analysis to ensure the validity and reasonableness of our data, such as ranges of dollar values, transaction dates, and tax periods. Based on the results of our testing, we believe that the data used in our review were reliable.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the process for planning, organizing, directing, and controlling program operations for the 2018 Filing Season. We evaluated these controls by monitoring IRS weekly production meetings, reviewing IRS procedures, and reviewing IRS reports.

Appendix II

Major Contributors to This Report

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

Appendix III

Report Distribution List

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

Appendix IV

Glossary of Terms

Term	Definition
Additional Child Tax Credit	The refundable portion of the CTC that was designed to reduce the income tax burden for families with dependent children. It is used to adjust the individual income tax structure to reflect a family's reduced ability to pay taxes as family size increases.
Advance Premium Tax Credit	A tax credit that is paid in advance to a taxpayer's insurance company to help cover the cost of premiums.
American Opportunity Tax Credit	A partially refundable Federal tax credit used to help parents and college students offset the costs of college.
Average Speed of Answer	The average number of seconds taxpayers waited in the assistor queue (on hold) before receiving services.
Child Tax Credit	A tax credit for families with dependent children that is used to reduce the individual income tax burden for families, better recognize the financial responsibilities of raising dependent children, and promote family values.
Data Center Warehouse	A TIGTA repository of IRS data.
Dependent Database	A risk-based audit selection tool used by the IRS to identify tax returns for audit. The Dependent Database scoring system uses business rules to identify EITC and other refundable credits noncompliance at the point of filing through use of internal and external data elements. The IRS implemented identity theft rules within the Dependent Database in Processing Year 2012. Tax returns are analyzed to identify potentially fraudulent tax returns involving identity theft.
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.

Term	Definition
Exchange	The Exchange is where taxpayers find information about health insurance options, purchase qualified health plans, and, if eligible, obtain help paying premiums and out-of-pocket costs. It is also known as the Health Insurance Marketplace or Health Insurance Exchange.
Filing Season	The period from January 1 through mid-April when most individual income tax returns are filed.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Free File	A free Federal tax preparation and e-filing program for eligible taxpayers developed through a partnership between the IRS and the Free File Alliance, LLC. The Alliance is a group of private sector tax software companies.
Individual Master File	An IRS database that maintains transactions or records of individual tax accounts.
Individual Return Transaction File	A database the IRS maintains that contains information on the individual tax returns it receives.
Individual Taxpayer Identification Number	A number created by the IRS to provide Taxpayer Identification Numbers to individuals who do not have and are not eligible to obtain an SSN.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Level of Service	The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS toll-free telephone lines.
Marketplace	The Marketplace is the place for people without health insurance to find information about health insurance options and to purchase health insurance. It is also known as the Health Insurance Marketplace or Health Insurance Exchange.

Term	Definition
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
Minimum Essential Coverage	Health insurance coverage that contains essential health benefits including emergency services, maternity and newborn care, and preventive and wellness services. Minimum essential coverage also includes doctor visits, hospitalization, mental health services, and prescription drugs.
Premium Tax Credit	A refundable tax credit created by the ACA to assist eligible taxpayers with paying their health insurance premiums.
Processing Year	The calendar year in which the return or document is processed by the IRS.
Shared Responsibility Payment	Beginning with the 2015 Filing Season, if a taxpayer or anyone in the taxpayer's tax household does not have minimum essential coverage and does not qualify for a coverage exemption, the taxpayer will need to make an SRP when filing his or her Federal income tax return.
Tax Year	The 12-month period for which tax is calculated. For most individual taxpayers, the tax year is synonymous with the calendar year.
Taxpayer Assistance Centers	Walk-in sites where taxpayers can receive assistance when they believe their tax issue cannot be handled online or by telephone or when they want face-to-face assistance.
Volunteer Program	Includes the Volunteer Income Tax Assistance Program, including the Volunteer Income Tax Assistance Grant Program and the Tax Counseling for the Elderly Program. The Volunteer Program provides free tax assistance to persons with low-to-moderate income (generally defined as within the EITC threshold), senior citizens, persons with disabilities, rural, those with limited English proficiency, and Native Americans.