



*Tax Cuts and Jobs Act:  
Assessment of Implementation Efforts*

**April 18, 2019**

**Reference Number: 2019-44-027**

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.

**Redaction Legend:**

2 = Law Enforcement Techniques/ Procedures and Guidelines for Law Enforcement Investigations or Prosecutions

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## HIGHLIGHTS

### TAX CUTS AND JOBS ACT: ASSESSMENT OF IMPLEMENTATION EFFORTS

## Highlights

### Final Report issued on April 18, 2019

Highlights of Reference Number: 2019-44-027 to the Commissioner of Internal Revenue.

#### IMPACT ON TAXPAYERS

The Tax Cuts and Jobs Act is the first major tax reform legislation in more than 30 years. This Act makes significant changes to the tax code affecting individuals, businesses, and tax-exempt organizations.

#### WHY TIGTA DID THE AUDIT

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act of 2017. The Tax Cuts and Jobs Act contains 119 tax provisions administered by the IRS that affect both domestic and international taxes. This audit assessed the accuracy and completeness of the IRS's actions to implement tax provisions contained in the Tax Cuts and Jobs Act of 2017.

#### WHAT TIGTA FOUND

The IRS faced numerous challenges implementing the 119 tax provisions of the Tax Cuts and Jobs Act. For example, the IRS had to create 48 new tax products, revise 494 existing tax products, and perform computer programming changes affecting 128 information technology systems, including addressing changes in the location of data fields in its fraud detection systems.

In addition, the decision on May 24, 2018, to redesign the Form 1040, *U.S. Individual Income Tax Return*, significantly increased the scope of work for the IRS. For example, the redesigned Form 1040 affected 113 tax forms, 66 instructions, and 64 publications. The IRS also had to create or modify its tax return processing controls for the redesigned Form 1040. In addition, although the IRS missed some key milestone dates for the redesigned Form 1040, it released the

Form 1040 as final on December 12, 2018, ahead of the January 2019 target date.

TIGTA's review of the Form 1040 also found that the date of divorce or separation agreements is needed on Form 1040, Schedule 1, *Additional Income and Adjustments to Income*, to determine if taxpayers are eligible to deduct alimony payments. IRS management stated that they would program and use filters to select tax returns for audit to determine if the taxpayer is eligible for the deduction for alimony payments.

In addition, TIGTA's review of 26 key provisions of the Tax Cuts and Jobs Act found that the IRS had to update 202 tax products, which includes creating three new tax forms and related instructions. As of November 26, 2018, the IRS updated and issued in draft 158 of 169 tax products it planned to release to the public.

Further, the IRS developed an overarching communication outreach strategy that informs stakeholders of tax law changes related to 81 of the 119 tax provisions of the Tax Cuts and Jobs Act. The IRS has also developed a hiring and training plan to support its customer service initiatives. As of December 1, 2018, the IRS onboarded 2,669 (88 percent) of 3,021 planned new hires and plans to spend about 2 million hours on training customer service employees.

#### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS revise Form 1040, Schedule 1, to obtain additional information regarding divorce or separation agreements for Tax Year 2019 and later.

IRS management agreed with this recommendation and plans to take appropriate corrective actions to revise Form 1040, Schedule 1.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

April 18, 2019

**MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE**

**FROM:** Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Tax Cuts and Jobs Act: Assessment of  
Implementation Efforts (Audit # 201840434)

This report presents the results of our review to assess the accuracy and completeness of the Internal Revenue Service’s actions to implement tax provisions contained in the Tax Cuts and Jobs Act of 2017.<sup>1</sup> This review is part of our Fiscal Year 2019 Annual Audit Plan and addresses the major management challenge of Implementing the Tax Cuts and Jobs Act and Other Tax Law Changes.

Management’s complete response to the draft report is included as Appendix VIII.

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

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<sup>1</sup> Pub. L. No. 115-97, 131 Stat. 2054 (2017). Officially known as “An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for Fiscal Year 2018.”



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*Abbreviations*

CSR	Customer Service Representative
e-file(d)	Electronically file(d)
IRS	Internal Revenue Service
OMB	Office of Management and Budget
RRP	Return Review Program
TIGTA	Treasury Inspector General for Tax Administration
TRIO	Tax Reform Implementation Office
TY	Tax Year



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## *Background*

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act of 2017.<sup>1</sup> The Act made significant changes to the tax code affecting individuals, businesses, and tax-exempt organizations. The Tax Cuts and Jobs Act contains 119 tax provisions administered by the Internal Revenue Service (IRS) that affect both domestic and international taxes.

As we previously reported,<sup>2</sup> the IRS's Legislative Affairs function monitored the pending legislation to identify provisions that affected the IRS and informed the various IRS operating divisions (Wage and Investment, Small Business/Self-Employed, Large Business and International, and Tax Exempt and Government Entities Divisions) so they could assess how to handle the implementation. Once the legislation was enacted, the IRS immediately began the task of implementing the provisions. For example, the IRS established a multifaceted oversight structure to coordinate implementation activities among the various IRS operating divisions that includes the:

- **Executive Steering Committee** – ensures that collaboration takes place between the various IRS operating divisions as well as addressing areas of concern that may affect organizations in the operating and functional divisions that were not the owners of the provision. This Committee is led by the IRS Commissioner and includes the IRS Senior Executive Team and representatives from the Department of the Treasury Office of Tax Policy.
- **Tax Reform Implementation Office (TRIO)** – centralizes responsibility for leading and coordinating IRS implementation efforts. The TRIO collaborates with points of contact and others from the operating and functional divisions including the IRS's Information Technology organization and the Office of Chief Counsel.
- **Tax Reform Implementation Council** – shares implementation activities among representatives across the IRS to identify areas of concern for issues that may affect other operating divisions.

The TRIO developed a *Tax Reform Implementation Planning Tool* for the operating division responsible for implementing each specific legislative provision to complete. The Planning Tool includes information that identifies taxpayer guidance, tax forms, and instructions

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<sup>1</sup> Pub. L. No. 115-97, 131 Stat. 2054 (2017). Officially known as “An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for Fiscal Year 2018.”

<sup>2</sup> Treasury Inspector General for Tax Administration, Ref. No. 2018-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts* (Apr. 2018).



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required to be changed or created; programming changes that needed to be performed; and external communications and employee training that needed to be developed and delivered.

**Process for creating and updating tax forms, instructions, and publications**

Tax law specialists in the IRS's Tax Forms and Publications Division are responsible for identifying, creating, and updating tax forms, instructions, and publications to reflect changes resulting from the Tax Cuts and Jobs Act. The various operating divisions responsible for implementing legislative provisions provide input to the Tax Forms and Publications Division. For example:

- The operating divisions work jointly with the Tax Forms and Publications Division to identify all tax forms, instructions, and publications requiring updates.
- The operating divisions develop a draft of the new tax form and, if necessary, raise legal interpretation questions to the IRS's Office of Chief Counsel. The tax law specialists begin with the previous year's tax forms, instructions, and publications and make the necessary updates to reflect changes in the tax law.

Once the previously discussed updates are completed, the Tax Forms and Publications Division distributes the drafts of the tax forms and instructions<sup>3</sup> within the IRS and the Department of the Treasury for feedback to obtain input on the accuracy and clarity of proposed changes (herein referred to as an internal release). This also includes distribution to the IRS's Information Technology organization to alert it to potential computer programming that may be required. The Tax Forms and Publications Division reviews feedback received from internal IRS functional areas and the Department of the Treasury and makes additional updates if needed.

Once the comments received are addressed, the IRS posts draft copies of the tax forms and instructions to the IRS website (IRS.gov) to obtain comments from the public (herein referred to as a draft release). Interested parties can provide tax form and instruction comments via an online forum at IRS.gov, which the Tax Forms and Publications Division reviews to determine if additional revisions to the tax form or instructions are needed. Posting the draft copies to the IRS website also provides software developers an opportunity to review early versions of the tax forms and instructions to understand the requirements needed to update their software.

In addition to the previously discussed process, the Office of Management and Budget (OMB) is required to review new tax forms, tax forms that involve significant changes to previously approved versions, and those requiring renewal.<sup>4</sup> OMB approval is required to comply with

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<sup>3</sup> The IRS sends publications out for internal and external comment on only a case-by-case basis.

<sup>4</sup> Tax forms receive renewal every three tax years to ensure that the tax form remains in compliance with the Paperwork Reduction Act. However, Form 1040, *U.S. Individual Income Tax Return*, and Form 1120, *U.S. Corporation Income Tax Return*, receive renewal on an annual basis.



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the Paperwork Reduction Act<sup>5</sup> and to ensure that the Federal Government collects information with a minimum burden on the public and at a minimum cost to the Federal Government. As part of the OMB approval process, two notices (a 60-day notice and 30-day notice) are published in the Federal Register<sup>6</sup> that provide details of the taxpayer burden associated with the tax form and allow for public comment. Once all of the required actions are completed, the Tax Forms and Publications Division will publish the updated tax form or instruction as a final draft and include the document on IRS.gov.

**Identification and development of tax return processing controls**

Tax return processing controls include business rules for electronically filed (e-filed) returns, *i.e.*, e-file reject codes, and error resolution codes. The IRS develops these controls to validate information on both e-filed and paper-filed tax returns. The operating division responsible for implementing a specific legislative provision, in coordination with the Submission Processing function and the Information Technology organization, are responsible for determining if computer programming changes are necessary to process new or revised tax forms. Once a need is determined, the operating division will prepare an information technology work request detailing the specific computer programming changes needed and send these to the IRS's Information Technology organization. These requests include:

- **Schema changes** – schemas provide basic definitions for the tax form data elements and the interrelationships among the data elements, *e.g.*, what fields are required, field length, data type, and allowable field values. For example, the IRS needs to revise schemas when a new line is included on a tax return and the IRS determines that it needs to capture the value from that line for tax return processing. The IRS also provides schemas to e-file software developers for their use in updating their tax return preparation software. Finally, the IRS verifies the accuracy of tax return data format by validating each tax return against the individual schemas.
- **Business rules** – used to validate information included on e-filed tax returns for acceptance into tax return processing. For example, business rules validate basic requirements on a tax return, such as income limits for tax credits and deductions and the need to attach a specific form/schedule if certain conditions are present on the tax return. The IRS will reject e-filed tax returns from processing when the tax return does not meet a business rule.
- **Error resolution codes** – used to validate the accuracy of paper-filed and e-filed tax returns during processing. For example, error resolution checks identify mathematical and clerical errors and validate basic requirements on a tax return, such as the

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<sup>5</sup> 44 U.S. Code Section 3501 et seq.

<sup>6</sup> The Federal Register provides details of the taxpayer burden and allows for public comment on the burden calculation.



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taxpayer's Social Security Number and name control<sup>7</sup> match IRS data. When a tax return is identified with an error condition, the IRS suspends the tax return from processing and sends the return to a tax examiner to correct the error. Once corrected, the IRS continues to process the tax return.

As an example of these processing controls, the Tax Cuts and Jobs Act provides individuals with a new Qualified Business Income Deduction. This requires programming changes to modify the Form 1040 schema to provide a field on the tax return to capture the amount of the deduction as well as programming changes to use this amount to calculate taxable income. In addition, the IRS prepared a computer programming request to develop error conditions for Qualified Business Income Deductions that exceed the income limitation. This included developing business rule conditions to reject e-filed tax returns and error resolution conditions to suspend paper-filed tax returns from processing.

This review was performed at IRS National Headquarters in Washington, D.C., in the Communications and Liaison and the Tax Reform Implementation Offices, in the Information Technology organization in Lanham, Maryland, and with information obtained from the Wage and Investment Division Headquarters in Atlanta, Georgia, during the period March through December 2018. Specifically, we obtained information from the:

- Tax Forms and Publications Division to identify and evaluate changes to tax forms, instructions, and publications.
- Accounts Management function and Field Assistance to identify and evaluate the IRS's efforts to provide customer service via telephone calls and office visits.
- National Communications and Liaison office to identify and evaluate the IRS's efforts to provide communications and outreach, both internally and externally.
- Submission Processing function to identify tax return processing controls affected by select provisions of the Tax Cuts and Jobs Act and the redesigned Form 1040.

Based on our risk assessment, we selected the redesign of Form 1040 and 26 of the 119 Tax Cuts and Jobs Act tax provisions for in-depth testing of IRS implementation as part of this review. The 26 provisions involved the development of a new form, was a new tax provision, affected a large number of taxpayers, and/or involved a significant amount of dollars. For example, the 26 provisions we selected involved provisions that required a change to a tax form and affect tax information reported on Form 1040; Form 1120; Form 1120-S, *U.S. Income Tax Return for an S Corporation*; Form 1065, *U.S. Return of Partnership Income*; or Form 1041, *U.S. Income Tax Return for Estates and Trusts*. Appendix IV provides a list of the provisions we evaluated as part of this review. The Treasury Inspector General for Tax Administration (TIGTA) has additional ongoing reviews assessing the IRS's implementation

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<sup>7</sup> A name control is the first four letters in an individual's last name or the first four characters of the business name.



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of other provisions. Appendix V provides a description of the additional TIGTA reviews and provisions selected as part of those reviews.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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## *Results of Review*

The Tax Cuts and Jobs Act is the first major tax reform legislation in more than 30 years. Implementation of the 119 tax provisions required the IRS to:

- Create 48 new tax products and revise 494 existing tax products. These 542 tax products include 268 tax forms, 197 tax form instructions, and 77 publications.
- Perform computer programming changes and updates for 69 of the 119 provisions. The IRS estimates that these changes and updates affect 128 information technology systems. The information technology work requests prepared by the operating divisions require the Information Technology organization to create 275 new e-file business rules, update 36 existing e-file business rules, and delete 248 e-file business rules that are no longer needed. The requests also include creating four new error resolution codes and updating 22 existing error resolution codes.
- Develop and issue guidance documents including regulations, revenue rulings, revenue procedures, and notices. The IRS and the Department of the Treasury develop and issue the guidance documents to assist taxpayers with the interpretation of the Internal Revenue laws associated with a number of the provisions in the Tax Cuts and Jobs Act. TIGTA is conducting a separate review to evaluate the IRS's efforts to develop published guidance related to the Tax Cuts and Jobs Act.<sup>8</sup>

Along with the numerous challenges the IRS faces in implementing the Tax Cuts and Jobs Act, on May 24, 2018, the decision was made to also redesign the format of Form 1040. Specifically, for the 2019 Filing Season, Form 1040 was redesigned to fit an one-half-page front and back.<sup>9</sup> This was done by keeping lines used by a large segment of the taxpayers on the Form 1040 and moving less frequently used lines to one of six new Form 1040 schedules. As a result, the IRS eliminated Form 1040A, *U.S. Individual Income Tax Return*, and Form 1040EZ, *Income Tax Return for Single and Joint Filers With No Dependents*. Therefore, all individual taxpayers will file using one tax form.

When the decision to redesign Form 1040 was announced, the operating divisions were already behind schedule with providing the Information Technology organization with work requests for computer programming needed to implement provisions included in the Tax Cuts and Jobs Act. However, IRS management stated that they saw tax reform as an opportunity to evaluate and make changes to the existing Form 1040. The decision to redesign Form 1040 substantially added to the volume of tax forms, instructions, and publications that the IRS

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<sup>8</sup> TIGTA, Audit No. 201810022, *Chief Counsel Guidance on Tax Law Changes*.

<sup>9</sup> See Appendix VII for an example of the redesigned Form 1040.



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needed to update along with increasing the demand on Information Technology organization resources to program necessary changes to IRS systems. For example, the redesign of Form 1040 required the IRS to update 243 tax forms, instructions, and publications.

Finally, the IRS faced an additional challenge with the partial shutdown of the Federal Government from December 22, 2018, through January 25, 2019. The IRS was able to continue with some of its implementation activities related to the Tax Cuts and Jobs Act during the shutdown. This included the issuance of tax forms, instructions, and publications; computer programming to accept and process tax returns; and the issuance of guidance documents including regulations. In the next phase of our ongoing review, we will continue to assess the impact of the partial shutdown on the delivery of the 2019 Filing Season. In addition, we will evaluate the accuracy of processing tax returns, including testing tax returns during processing to ensure that business rules and error conditions are functioning as intended and that fraud detection systems are updated correctly.

***Redesign of Form 1040, U.S. Individual Income Tax Return,  
Significantly Increased the Scope of Work***

The decision to redesign Form 1040 at the same time the IRS is implementing the 119 new tax provisions significantly increased the scope of work needed to be performed in preparation for the 2019 Filing Season. In addition, the IRS encountered some delays in achieving key milestone dates it established during the implementation of the redesigned Form 1040. For example, the IRS established April 30, 2018, as the due date for the internal release of tax forms, yet the final decision to redesign the Form 1040 was not made until May 24, 2018. As a result, the IRS did not internally release the redesigned Form 1040 until June 7, 2018, with the draft Form 1040 released to the public on June 28, 2018. The IRS, in consultation with the OMB, determined that the redesign of Form 1040 was significant and required OMB approval. The IRS submitted the required 60-day notification to the Federal Register on July 20, 2018, and received OMB approval on December 7, 2018. The final release of the Form 1040 to the public was on December 12, 2018, ahead of its target dates. Figure 1 identifies key milestone dates regarding the redesign of Form 1040 and instructions.



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**Figure 1: Key Milestone Dates for the Redesigned Form 1040**

Status Item	Target Date	Actual Date	Delayed
Internal Release of Redesigned Form 1040	April 30, 2018	June 7, 2018	Yes
Draft Release of Redesigned Form 1040	August 16, 2018	June 28, 2018	No
Issue 60-Day Notice of Form 1040 in Federal Register	August 17, 2018	July 20, 2018	No
Internal Release of Redesigned Form 1040 Instructions	August 20, 2018	August 20, 2018	No
Provide to Treasury for 30-Day Notice of Form 1040 in Federal Register	October 1, 2018	October 4, 2018	Yes
Draft Release of Redesigned Form 1040 Instructions	September 21, 2018	September 26, 2018	Yes
Receive OMB Approval for Form 1040	November 30, 2018	December 7, 2018	Yes
Release Form 1040 Instructions to Public	December 14, 2018	December 12, 2018	No
Release Form 1040 to Public	January 7, 2019	December 12, 2018	No

*Source: TIGTA analysis of IRS Form 1040 redesign dates as of December 12, 2018, and IRS report identifying products needing OMB approval as of November 21, 2018.*

**The redesign resulted in additional work to revise other tax forms, publications, and taxpayer correspondence**

In addition to redesigning Form 1040 and revising its instructions, the IRS also had to revise additional tax forms, instructions, and publications with updated references to the new Form 1040 as well as remove references to the eliminated tax forms, *i.e.*, Form 1040A and Form 1040EZ. The IRS identified 243 tax products (113 tax forms, 66 instructions, and 64 publications) that required revision. Recognizing the scope of the revisions that would be needed, IRS management took steps to reduce the extent of these revisions. For example, the IRS tried to keep the same Form 1040 line reference numbers between the old Form 1040 and the new Form 1040 where possible to minimize programming changes for both the IRS as well as for external tax preparation software developers. However, for those lines moved to one of the six new schedules, all associated tax forms, instructions, and publications required updating.

In addition, because of the timing of the redesign decision, the IRS had to update some tax forms that were already released as final. For example, the IRS released nine information



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returns, *e.g.*, Form W-2, *Wage and Tax Statement*; Form 1099-MISC, *Miscellaneous Income*; Form 1099-INT, *Interest Income*, as final tax forms to the public. The IRS had to revise or reissue these tax forms because they had incorrect references to the old Form 1040. Finally, in addition to the 243 tax products that required updating, the IRS had to update 89 correspondence products<sup>10</sup> that required changes due to the redesigned Form 1040 and the Tax Cuts and Jobs Act, with 62 of the 89 also requiring computer programming updates. As of November 26, 2018, the IRS had completed drafts of 87 correspondence products, and the operating divisions had submitted the required information technology work requests. However, programming associated with 54 of the 62 correspondence products had yet to be completed.

**Concerns raised relative to the redesigned Form 1040**

As previously mentioned, the redesigned Form 1040 resulted in the elimination of Forms 1040A and 1040EZ. Our comparison of lines on the eliminated tax forms to the redesigned Form 1040 identified four lines from the Form 1040EZ that were not part of the redesigned Form 1040. These lines were either included on one of the six schedules or removed from the tax form entirely. For example, the unemployment income included on Form 1040EZ is excluded from the redesigned Form 1040 (page 1 or page 2). Taxpayers will now report this income on Form 1040, Schedule 1, *Additional Income and Adjustments to Income*.

When we raised this issue, IRS management acknowledged that not all lines from the prior Forms 1040, 1040A, and 1040EZ are included on the redesigned Form 1040. IRS management believed that this approach ensured that at least 25 percent of individual taxpayers would be able to file their Tax Year (TY)<sup>11</sup> 2018 Form 1040 without any schedule or attachment. In comparison, IRS management indicated that about 16 percent of individual taxpayers file Form 1040EZ each tax year. Further, management stated the lines selected for inclusion on the redesigned Form 1040 allowed for the most number of taxpayers to file only this tax form. The line selection choices also ensured those lines selected are key data entry items needed for processing and minimizes the effect on programming.

**Comments from the public received and addressed.** In addition to our comments, the IRS received 693 comments from the public (as of August 14, 2018) regarding the redesigned Form 1040. While the IRS did not address comments that expressed concern with the new

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<sup>10</sup> The IRS uses the correspondence products to communicate with taxpayers for four main reasons: 1) the IRS owes the taxpayer money, 2) the taxpayer owes the IRS money, 3) the IRS needs information from the taxpayer, and 4) the IRS provides information to the taxpayer. For example, the IRS sends letters to taxpayers when tax returns are stopped during processing by error resolution codes.

<sup>11</sup> The 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due.



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one-half-page format, the IRS did address other significant concerns raised through this forum. For example, the IRS added:

- Checkboxes for the “single” and “married filing jointly” filing statuses that were excluded on the draft release.
- Two additional lines for dependents, for a total of four lines for dependents.
- An additional box and a line to separate additional income from adjustments to income. The draft release contained only one line for additional income and adjustments to income which could cause taxpayer confusion because the entry could be either a negative number or a positive number.

**Tax preparation software developers express concerns about receiving additional provision guidance.** In our discussions with three tax preparation software developers, they stated that overall the Tax Cuts and Jobs Act created more work for them but has not changed their process and is largely viewed as “business as usual.” The tax preparation software developers rely upon the IRS’s schemas, business rules, draft tax forms, draft instructions, and guidance that the IRS releases. This information, as well as the periodic updates to the schemas, allows them to start programming earlier. The tax preparation software developers also indicated that the IRS made as few changes as possible to the Form 1040 schema, making it easier for them to implement changes.

However, the tax preparation software developers expressed concern regarding the availability of additional guidance, including worksheets, to calculate deductions and credits. For example, the worksheet *Child Tax Credit and Credit for Other Dependents* was unavailable when we held our discussions with the software developers. However, the IRS released these worksheets on September 26, 2018. In our discussion with the IRS, it indicated that this is consistent with the timeline for prior years.

**Implementation of Form 1040 processing controls**

The IRS reviewed the business rules and error resolution codes to identify those affected by the redesign of the Form 1040. The IRS deleted business rules affected by the redesign of the Form 1040 and replaced them with new business rules. The update to new business rules reflects the new tax form and schedules. In total, the IRS created or modified 150 business rules and created one new error resolution code because of the redesign of the Form 1040. The Information Technology organization requested that the operating divisions provide all 2019 Filing Season work requests by June 1, 2018. This milestone was not met. From June 4, 2018, through October 22, 2018, the operating divisions continued to develop and submit 18 Form 1040 work requests requesting information technology support for Processing



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Year<sup>12</sup> 2019. Figure 2 shows the status of all work requests related to the Form 1040 for Processing Year 2019.

**Figure 2: Status of the Work Requests for Form 1040**

Status	Work Requests
Pending Approval – these are work requests that require additional input or authorization from affected IRS personnel.	7
Approved – these are work requests that are currently being worked by the Information Technology organization.	27
Completed – these are work requests that have been fully implemented.	4
Total	38

*Source: TIGTA analysis of IRS operating divisions’ work requests affected by the Form 1040 redesign or Tax Cuts and Jobs Act as of November 27, 2018.*

The work requests in “Pending Approval” status include programming for new business rules for Form 1040. The programming will allow the IRS to mitigate risks, including revenue loss and erroneous refunds being issued.

**TIGTA review of e-file business rules identified some incomplete, inaccurate, and irrelevant rules released to tax preparation software developers.**

The IRS provided tax preparation software developers TY 2018 e-file business rules for the redesigned Form 1040 on October 17, 2018. Our review of the 1,691 business rules<sup>13</sup> associated with Form 1040 identified concerns relative to 95 of these rules. Some of these concerns related to the redesign of Form 1040, while other concerns related to Tax Cuts and Jobs Act tax law changes. Inaccurate descriptions of the business rules can lead to errors in the computer programming and the erroneous rejection or erroneous acceptance of tax returns.

We brought our concerns to IRS management’s attention on October 25, 2018, and management agreed with our assessment that 23 of the 95 business rules required updating. IRS management advised that they submitted the necessary documentation to the Information Technology organization to make those updates. For the remaining 72 business rules, the IRS explained that, for various reasons, the business rules did not require changes for TY 2018. The most common explanation was that the business rule will work with the current version of the Form 1040 schema, but the IRS plans to develop new processes or rules when it creates separate schemas for Form 1040 schedules for TY 2019.

<sup>12</sup> The calendar year in which the IRS processes the tax return or document.

<sup>13</sup> This includes the 150 business rules created or modified due to the redesign of the Form 1040 as well as other Form 1040 business rules not affected by the redesign of the Form 1040.



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**Implementation of Key Provisions of the Tax Cuts and Jobs Act**

Our review of 26 key provisions<sup>14</sup> included in the Tax Cuts and Jobs Act identified that the IRS had to update 202 tax products, *i.e.*, tax forms, instructions, and publications, which includes creating three new tax forms and the related instructions. As of November 26, 2018, the IRS updated and issued in draft 158 of 169 products.<sup>15</sup> Figure 3 shows the status of actions taken and actions remaining as of November 26, 2018, to release the 202 tax products.

**Figure 3: Status of TY 2018 Tax Forms, Instructions, and Publications for 26 Key Provisions**

Status	Forms	Instructions	Publications	Total
Total Products	85	84	33	202
New Products	3	3	0	6
Products Requiring Internal Release	82	80	10	172
Internally Released	82	73	8	163
Internal Release Pending	0	7	2	9
Products Requiring Draft Release	85	84	N/A <sup>16</sup>	169
Draft Released To Public	85	73	N/A	158
Draft Release Pending	0	11	N/A	11
OMB Approval Required	8	N/A <sup>17</sup>	N/A	8
60-Day Notice Published in the Federal Register	8	N/A	N/A	8
Submitted to Treasury for 30-Day Notice	7	N/A	N/A	7
OMB Approved	0	N/A	N/A	0
Final Release	29	16	1	46

*Source: Tax Forms and Publications Division’s Production Plan Report as of November 26, 2018, and OMB’s Impacted Products Report as of November 21, 2018.*

**Implementation of processing controls for the 26 key provisions**

As previously discussed, the Information Technology organization requested that the operating divisions provide all 2019 Filing Season work requests by June 1, 2018. This

<sup>14</sup> See Appendix IV for a list of these provisions.

<sup>15</sup> The IRS does not release all products to the public before releasing as final. For example, the IRS sends publications out for internal and external comment on only a case-by-case basis.

<sup>16</sup> Not applicable, the IRS does not release publications in draft.

<sup>17</sup> Not applicable, instructions and publications do not require OMB approval.



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milestone was not met for all of the work requests related to the implementation of the 119 provisions of the Tax Cuts and Jobs Act. Our review showed that after the June 1, 2018, deadline, 49 of the 164 work requests for computer programming were submitted. Figure 4 shows the status of the work requests related to the Tax Cuts and Jobs Act (excludes the Form 1040 work requests previously discussed).

**Figure 4: Status of the Work Requests Related to the Tax Cuts and Jobs Act for Processing Year 2019**

Status	Work Requests
Pending Submission – work requests requiring additional information before submission.	1
Pending Approval – work requests requiring additional input or authorization from IRS operating division(s).	9
Approved – work requests that are being worked by the Information Technology organization.	143
Completed – work requests that have been fully implemented.	11
Total	164

*Source: TIGTA's analysis of work requests affected by the Tax Cuts and Jobs Act as of November 27, 2018.*

For the 26 key provisions we tested, our review identified that 137 existing business rules and 12 existing error resolution codes required updating. The IRS also created 125 new business rules and four new error resolution codes for the processing of TY 2018 tax returns. Our review of the 137 business rules identified concerns with 10 of these rules. For example, some of these rules referred to the spousal exemption on Form 1040NR, *U.S. Nonresident Alien Income Tax Return*, yet this field is no longer on the tax form, or the rule referred to deductions that have been suspended by the Tax Cuts and Jobs Act. We brought our concern to IRS management's attention and they agreed with our assessment. The IRS has submitted documentation to the Information Technology organization to remove these rules.

**Issues we raised to IRS management relative to our testing of the 26 key provisions**

Our review identified concerns regarding the IRS's implementation of the following key provisions:

- **Provision 11022, Increase in and modification of Child Tax Credit:** Our review found that the Form 1040 instructions needed additional information and clarity for the worksheet and instructions related to the Child Tax Credit and the Credit for Other Dependents. For example, the worksheet *Child Tax Credit and Credit for Other*



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*Dependents* defined the qualifications for the Child Tax Credit, but the worksheet did not define the qualifications for the new Credit for Other Dependents. When we brought these concerns to IRS management’s attention, management agreed with our comments and revised the instructions. These revisions were included in a new version of the Form 1040 instructions and worksheet released internally and to the public on September 26, 2018.

- **Provision 11051, Repeal of deduction for alimony payments:** Our review of the Form 1040 found that a line is needed to enter the date of divorce or separation agreements on Form 1040, Schedule 1. Individuals who make payments pursuant to divorce or separation agreements entered into prior to January 1, 2019, can continue to claim a deduction for payments made, and individuals who receive alimony pursuant to these agreements must continue to report the payments as income on their tax return. The IRS currently only requires the individual claiming an alimony deduction to provide the Taxpayer Identification Number<sup>18</sup> of the individual who received the alimony. Without the date of the alimony agreement, the IRS will be unable to determine whether individuals claiming an alimony deduction are eligible to do so.

When we brought this concern to IRS management’s attention, management stated that the IRS’s current plan for determining if the taxpayer is eligible for the alimony deduction claimed after December 31, 2018, is to program filters that evaluate a taxpayer’s filing history with regard to the alimony deduction to determine if alimony was paid prior to TY 2019. IRS management stated that they would use the filters to select tax returns for audit. The volume of tax returns selected will be dependent on available resources and appropriate dollar thresholds.

- **Provision 11011, Deduction for Qualified Business Income:** Our separate review of the IRS’s implementation of the Qualified Business Income Deduction<sup>19</sup> identified that the IRS \*\*\*\*\*2\*\*\*\*\*. IRS management responded that they would like to ensure an appropriate balance between compliance risk and taxpayer burden. Management plans to develop a post-processing compliance plan \*\*\*\*\*2\*\*\*\*\*. However, the IRS prepared a computer programming request to \*\*\*\*\*2\*\*\*\*\*. \*\*\*\*\*2\*\*\*\*\*.

<sup>18</sup> A nine-digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, the Taxpayer Identification Number is an Employer Identification Number, a Social Security Number, or an Individual Taxpayer Identification Number.

<sup>19</sup> TIGTA, Ref. No. 2019-44-022, *Tax Cuts and Jobs Act: Implementation of the Qualified Business Income Deduction* (Mar. 2019).



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In addition, our report for that audit, dated March 18, 2019, recommended that the IRS develop processes \*\*\*\*\*2\*\*\*\*\* and timely implement the post-processing compliance \*2\*. Management agreed with our recommendations.

- **Provision 11041(c), Modification of wage withholding rules:** In April 2018,<sup>20</sup> we reported that the Tax Cuts and Jobs Act included provisions that made significant changes to income tax rates, income tax deductions and credits, and Federal income tax withholding. The Department of the Treasury led the effort to develop a new Form W-4, *Employee’s Withholding Allowance Certificate*. On June 5, 2018, the IRS released a new Form W-4 that removed the allowance system from the withholding determination and replaced it with set dollar amounts such as: nonwage income; other employment; tax credits, e.g., Child Tax Credit; and itemized deductions. Employees provide this information on the Form W-4 to the employer, who will then calculate withholding.

The external stakeholders raised concerns that the revised Form W-4 increases the complexity and, in some instances, decreases the accuracy of withholding. For example, the prior version of Form W-4 contained four pages of instructions. In comparison, the revised Form W-4 has 11 pages of instructions for both the employee and the employer. Further, stakeholders are concerned that the revised Form W-4 increases burden on employees and employers and raises privacy concerns by disclosing the employee’s personal financial information to their employer. In addition, external stakeholders indicated that the payroll providers need six months to prepare their systems for the new withholding method and provide outreach to educate their customers and employees on how to properly complete Form W-4.

On September 20, 2018, the Department of the Treasury announced that the IRS will delay the implementation of the new Form W-4 until TY 2020. The Department of the Treasury stated that the delay allows it and the IRS to properly implement changes to the withholding system and ensure that taxpayers have a positive and simplified experience. For TY 2019, the IRS intends to release a Form W-4 that makes minimal changes to the TY 2018 Form W-4.

<sup>20</sup> TIGTA, Ref. No. 2018-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts* (Apr. 2018).



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**Recommendation**

**Recommendation 1:** The Commissioner, Wage and Investment Division, should revise the TY 2019 Form 1040, Schedule 1, to add the date of divorce or separation agreements and create controls to prevent taxpayers from claiming the alimony deduction that originated after January 1, 2019.

**Management’s Response:** The IRS agreed with this recommendation and plans to revise the TY 2019 Form 1040, Schedule 1, to capture the dates of divorce agreements. IRS management also plans to prepare programming requirements to permit systemic identification of potentially improper deductions.

**Updates to Fraud Detection Systems**

Our review found that the IRS’s fraud detection systems require updates due to the redesigned Form 1040 and the implementation of the Tax Cuts and Jobs Act. Specifically, updates to the Return Review Program<sup>21</sup> (RRP) and Dependent Database<sup>22</sup> are necessary to address changes in the location of data fields based on revisions to tax forms. For example, the IRS needs to ensure that detection filters are using the correct data as schemas have been updated to accommodate the redesigned Form 1040. These updates include removing data fields from detection filters that no longer exist. If updates are not performed correctly, the IRS can select tax returns as potentially fraudulent when, in fact, the tax return is valid or the system does not identify tax returns with fraud characteristics.

The IRS started updating detection filters in the Dependent Database. For example, the Dependent Database has filters that use the type of Form 1040, *e.g.*, Form 1040, 1040A, or 1040EZ, as part of the selection criteria. The redesigned Form 1040 eliminated Forms 1040A and 1040EZ and, as such, requires the IRS to remove the criteria from the Dependent Database filters. As of November 15, 2018, the IRS needed to modify 28 filters due to the Tax Cuts and Jobs Act and retire eight other filters that were not productive last year.

As it relates to updating the RRP, the fraud models \*\*\*\*\*2\*\*\*\*\*  
\*\*\*\*\*2\*\*\*\*\*  
\*\*\*\*\*2\*\*\*\*\*  
\*\*\*\*\*2\*\*\*\*\*  
\*\*\*\*\*2\*\*\*\*\*  
\*\*\*\*\*2\*\*\*\*\*

<sup>21</sup> The RRP uses predictive analytics, models, filters, clustering, a scoring system, business rules, selection groups, and prisoner identification data to identify potentially fraudulent tax returns including identity theft.

<sup>22</sup> The Dependent Database is a rules-based system that incorporates information from many sources, including the Department of Health and Human Services, the Social Security Administration, and the IRS.





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- Posts from official IRS social media accounts on Twitter, Tumblr, and Facebook.
- Videos on YouTube and IRS.gov.
- E-news articles for employers and tax industry professionals.
- Nationwide Tax Forums for employers and tax industry professionals.
- Webinars with small business stakeholders.
- Paycheck Checkup events.

**Outreach activities were conducted based upon the communication strategy**

Our review of a judgmental sample<sup>23</sup> of operating division communication plans identified 219 outreach activities that were planned to occur on or before September 30, 2018. Our review determined that the IRS has completed each of the planned outreach activities.

**Volunteer Income Tax Assistance**

The IRS provides no-cost Federal tax return preparation and electronic filing to underserved segments of individual taxpayers through the Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs. In preparation for the 2019 Filing Season, the IRS provided:

- A high-level overview of tax reform to the employees who manage these programs in February 2018.
- Outreach materials on the withholding calculator to employees and tax preparation partners in March 2018 to assist with answering questions from taxpayers visiting the sites.
- Tax reform training to its employees in September 2018.
- Training materials to tax preparation partners in October 2018.

Our review showed that the training materials are up to date for the Tax Cuts and Jobs Act tax reform changes. IRS management noted that the demand for volunteer tax preparation services has remained constant for the last several years, and it did not anticipate increased demand for services due to the Tax Cuts and Jobs Act.

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<sup>23</sup> A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population. Our judgmental sample included 13 of the 81 provisions covered by the communication strategy. These 13 provisions are part of our 26 key provisions and are included in each of four communication initiatives. We excluded the Opportunity Zones and International communication initiatives.



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### **Customer Service Hiring and Training**

In April 2018,<sup>24</sup> we reported that the Wage and Investment Division was developing its hiring and training plans to support its customer service initiatives. For example, the IRS's hiring strategy for the Accounts Management function<sup>25</sup> was to provide toll-free telephone lines at full capacity. To determine the specific number of individuals to hire, the IRS identified the number of available workstations with working telephones and computers and compared this with the current number of employees on board, along with historical attrition. Based on this strategy, the IRS plans to hire 3,021 seasonal<sup>26</sup> employees to answer tax account telephone calls or resolve tax account issues. The IRS indicated that the goal is to have these employees trained and in place early to mid-February 2019, prior to the peak taxpayer assistance demand period.

In addition, the IRS worked with the Department of the Treasury and estimated that implementation of the Tax Cuts and Jobs Act would cost approximately \$397 million, which included \$75 million to hire 1,000 full-time equivalents for taxpayer assistance, education, and outreach for Fiscal Years<sup>27</sup> 2018 and 2019. On March 23, 2018, the President signed the Consolidated Appropriations Act of 2018,<sup>28</sup> which included \$320 million in funding available through Fiscal Year 2019 for implementation of provisions of the Tax Cuts and Jobs Act. These 3,021 seasonal employees will be funded in part by the 1,000 full-time equivalents in the IRS's budget request for Fiscal Year 2019. However, IRS management noted that if the additional funding is not received, they will release their seasonal employees earlier. As of December 1, 2018, the IRS onboarded 2,669 (88 percent) of the 3,021 new hires. Figure 5 shows the status of onboarding these new hires.

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<sup>24</sup> TIGTA, Ref. No. 2018-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts* (Apr. 2018).

<sup>25</sup> Employees responsible for taxpayer relations by answering tax law/account inquiries, adjusting tax accounts, providing taxpayers with information on the status of their returns/refunds, and resolving the majority of issues and questions to settle taxpayers' accounts.

<sup>26</sup> A seasonal employee generally works at the IRS for only several months of the year, *e.g.*, January through April.

<sup>27</sup> 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.

<sup>28</sup> Pub. L. No. 115-141.



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**Figure 5: Status of Onboarding New Hires for Customer Service**

<b>Position Description<sup>29</sup></b>	<b>Number of Planned New Hires</b>	<b>Planned Onboard Date</b>	<b>Offers Accepted</b>	<b>Onboard</b>
Tax Examiners	316	August 20, 2018	328	262
Customer Service Representatives (CSR) – Bilingual	340	October 1, 2018	300	280
CSR – Individual Tax Returns, Processing Center	1,035	October 15, 2018	1,158	1,041
CSR – Individual Tax Returns, Remote location	995	October 29, 2018	873	814
CSR – Business Tax Returns	335	November 26, 2018	380	272
<b>Total</b>	<b>3,021</b>		<b>3,039</b>	<b>2,669<sup>30</sup></b>

*Source: TIGTA analysis of hiring data provided by the IRS as of December 1, 2018.*

The IRS indicated that while it has onboarded 88 percent of its overall hiring goal of 3,021 employees as of December 1, 2018, it plans to continue hiring 273 employees through February 25, 2019. The IRS indicated that it would use targeted overtime to increase staffing, if necessary to address any shortages in hiring.

**Customer service training on Tax Cuts and Jobs Act**

The IRS developed a training program to ensure that tax examiners and CSRs receive training on 32 of the 119 provisions of the Tax Cuts and Jobs Act.<sup>31</sup> The training materials developed address the provisions that taxpayers may contact the IRS for assistance. For example, the training addresses the redesigned Form 1040. The IRS plans to deliver this training in what it terms as “just in time.” This means that the on-the-job instruction portion of the tax law training will occur when the employees start receiving telephone calls for the 2019 Filing Season. The Tax Cuts and Jobs Act has significantly increased the need for training. IRS management noted that during October to December 2017, the IRS spent about 1 million hours on training. For the same time frame for this year, the IRS is expecting to spend about 2 million hours on training. Finally, IRS management noted that the TRIO and the IRS Office of Chief Counsel reviewed the training materials for content and accuracy.

<sup>29</sup> See Appendix VI for a description of the duties of these Accounts Management function positions.

<sup>30</sup> IRS management indicated that, for external applicants, the length of time it takes to go through the hiring process creates a difference between the total offers accepted versus the number of employees onboard. Some applicants find other jobs between the time they accept the firm offer and the time the IRS onboards them.

<sup>31</sup> The IRS assigned the remaining 87 provisions to the other operating divisions to implement. As such, those divisions are responsible for developing training for their employees that will address those provisions.



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**The IRS’s training curriculum for the new hires includes training on answering and resolving account-related telephone calls.** For the tax examiner positions, the IRS plans to provide up to 10 weeks of training based on the job duties of the tax examiners and up to 16 weeks of training for CSR positions. The CSR positions will receive training on the various tools, such as researching tax accounts, along with training to answer and respond to telephone calls. The training for both the tax examiners and the CSRs will be a combination of instructor-led training, guided in-classroom self-study, and on-the-job instruction.

**Additional training will also be provided to current employees.** In addition to the training to be provided to new hires, the IRS plans to provide additional training for 5,227 current employees to enable them to provide additional assistance above their current training level. The IRS plans to provide this training by early to mid-February 2019, prior to the peak demand period. For example, the IRS plans to provide additional training to:

- 1,428 employees currently answering tax account or other non–tax law telephone calls to answer basic tax law telephone calls. These employees will receive 174 hours spread over 23.5 training days of a combination of instructor-led training, guided in-classroom self-study, and on-the-job instruction to prepare them to answer basic individual tax law questions.
- 293 employees currently answering basic tax law questions to answer intermediate tax law questions. These employees will receive updated basic tax law training and training to answer questions related to pensions and capital gains.
- 60 employees currently answering tax account–related telephone calls to answer tax law questions related to tax-exempt entities. These employees will receive updated basic tax law training and training to answer questions related to tax-exempt organizations.

Several of the training materials we reviewed included the following statement, “at the time material was developed, there were still pieces of tax reform legislation not yet finalized.” IRS management explained that it has a process in place to update materials as information from tax reform legislation is finalized. As new information or updates are made available, those updates are communicated to instructors to incorporate into the training. The IRS sends updated or changed training materials to a centralized database site called the Instructors Corner so instructors can access and share that information with students. In addition, changes made will be noted in the training material via an Errata Sheet.<sup>32</sup>

Finally, IRS management noted that the partial shutdown of the Federal Government from December 22, 2018, through January 25, 2019, required the updating of training plans for new

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<sup>32</sup> An Errata Sheet is an optional mechanism used to make minor revisions to published documents.



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hires and current employees. We will continue to assess the IRS's training efforts in the next phase of our ongoing review.

**Taxpayer Assistance Center hiring**

The IRS plans to hire 122 employees to assist taxpayers at 82 of the 359 Taxpayer Assistance Center locations. This includes 90 employees to fill vacant positions and 32 employees to fill new seasonal positions specifically for the 2019 Filing Season. The IRS does not have specific onboard dates for the 90 employees filling vacant positions because this hiring is attrition-based and not related to the filing season. However, the IRS plans to onboard the 32 seasonal employees specifically for 2019 Filing Season by November 26, 2018. As of November 24, 2018, 21 of the 32 seasonal new hires were onboard.



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## Appendix I

### *Detailed Objective, Scope, and Methodology*

Our overall objective was to assess the accuracy and completeness of the IRS's actions to implement tax provisions contained in the Tax Cuts and Jobs Act of 2017.<sup>1</sup> To accomplish this objective, we:

- I. Evaluated the accuracy and completeness of the IRS's actions to update tax forms, instructions, publications, and processing controls due to the Tax Cuts and Jobs Act. This review included evaluating the tax provision and assessing whether changes to the tax forms, publications, and processing controls are required.
  - A. Obtained the TRIO planning templates, operating division action plans, and Legislative Analysis Tracking and Implementation Services<sup>2</sup> action items to identify key provisions.
  - B. Determined that action plans identified the actions needed to implement the provisions. This included identifying correct tax forms, instructions, and publications as well as taxpayer guidance and programming needs. We reviewed the IRS Implementation Plan for the Tax Forms and Publications Division<sup>3</sup> to identify tax forms, instructions, and publications that the IRS deemed necessary to update or create, and we identified the Tax Cuts and Jobs Act provision requiring the product change.
  - C. Identified 26 key provisions from the Tax Cuts and Jobs Act. We identified key provisions based upon the provision requiring a change to a tax form and affecting tax information reported on Forms 1040, *U.S. Individual Income Tax Return*, Form 1120, *U.S. Corporation Income Tax Return*, Form 1120-S, *U.S. Income Tax Return for an S Corporation*, Form 1065, *U.S. Return of Partnership Income*, or Form 1041, *U.S. Income Tax Return for Estates and Trusts*. We excluded international provisions and tax-exempt provisions as these provisions were included or considered as part of other TIGTA audits. See Appendix IV for a complete list of the 26 key provisions.

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<sup>1</sup> Pub. L. No. 115-97. Officially known as "An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for Fiscal Year 2018."

<sup>2</sup> The system is used to manage, coordinate, and track the actions the IRS takes to implement legislative provisions.

<sup>3</sup> An implementation plan is a tool used by the Tax Forms and Publications Division to ensure that products are updated to conform to new legislation or other technical guidance.



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1. For each of the 26 provisions, analyzed Tax Forms and Publications Division reports to identify tax forms, instructions, and publications that were affected by the key provisions.
  2. Reviewed IRS markups on the Composition Process Management<sup>4</sup> for tax forms, instructions, and publications to ensure the accuracy of changes to the tax products.
- D. Evaluated the accuracy and completeness of the changes to tax forms for the 26 key provisions.
1. Identified the changes that are needed or could be needed to the IRS's business rules.
  2. Identified the changes that are needed or could be needed to the IRS's error resolution codes.
- E. Reviewed the accuracy and completeness of the changes to instructions and publications for the 26 key provisions.
- F. Monitored the IRS's status for making updates to tax forms, instructions, and publications.
- G. Assessed the effect of tax form changes on the IRS's fraud detection systems.
- H. Reviewed the accuracy of the IRS's outreach efforts and ensured that they reflected the changes made by the Tax Cuts and Jobs Act. This included the review of the IRS's YouTube videos and Tax Topics. We selected a judgmental sample<sup>5</sup> of 13 communication plans that were part of the 26 key provisions. We reviewed 219 planned outreach activities that were planned to be completed by September 30, 2018, listed on the 13 communication plans.
- II. Assessed the IRS's process to provide customer service to taxpayers and preparers for the Tax Cuts and Jobs Act.
- A. Identified and evaluated the IRS's plan to perform outreach and education to individual taxpayers and tax return preparers regarding the provisions of the Tax Cuts and Jobs Act. We reviewed the IRS's plans to provide information on IRS.gov and through social media.

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<sup>4</sup> A centralized composition system to store, manage, and transform electronic products from a single-source file into output files used for print or viewing electronically.

<sup>5</sup> A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.



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- B. Determined whether the IRS has an adequate plan to hire additional staffing to provide assistance to individual taxpayers and tax return preparers regarding the provisions of the Tax Cuts and Jobs Act.
    - 1. Identified and evaluated the process used to calculate the additional toll-free telephone calls and walk-in assistance projected.
    - 2. Identified the number of additional employees planned/hired to answer these additional telephone calls and provide walk-in assistance. This included field assistance, toll-free telephone calls, and walk-in assistance.
  - C. Determined whether the IRS has planned adequate training for employees responsible for providing customer service related to the provisions of the Tax Cuts and Jobs Act. We identified and evaluated the process used to identify training needed for providing taxpayer assistance through toll-free telephone calls and walk-in assistance. This included internal sources such as websites that employees can use to educate themselves.
- III. Assessed the accuracy and completeness of the IRS's efforts to redesign Form 1040.
- A. Evaluated draft copies of the redesigned Form 1040 (including schedules) to identify tax lines that were moved, added, or removed from the prior Form 1040.
  - B. Identified other tax products affected by the redesigned Form 1040, including the elimination of Forms 1040A, *U.S. Individual Income Tax Return*, and 1040EZ, *Income Tax Return for Single and Joint Filers With No Dependents*.
  - C. Identified processing controls (business rules and error resolution codes) affected by the redesigned Form 1040.

**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 IRS's procedures to update tax forms, instructions, publication, and tax return processing controls. We also evaluated procedures for hiring employees in Field Assistance and the Accounts Management function. We accomplished this by interviewing IRS management and reviewing the Internal Revenue Manual<sup>6</sup> and key system documentation related to the tracking of tax provisions included in the Tax Cuts and Jobs Act.

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<sup>6</sup> The official source of information on policies and procedures for use by all IRS offices.



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**Appendix II**

*Major Contributors to This Report*

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**Appendix III**

*Report Distribution List*

Deputy Commissioner for Operations Support  
Deputy Commissioner for Services and Enforcement  
Deputy Chief Counsel (Technical)  
Chief Research and Analytics Officer  
Commissioner, Large Business and International Division  
Commissioner, Small Business/Self-Employed Division  
Commissioner, Wage and Investment Division  
Director, Customer Account Services, Wage and Investment Division  
Director, Submission Processing, Wage and Investment Division  
Director, Tax Forms and Publications, Wage and Investment Division  
Director, Office of Audit Coordination



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**Appendix IV**

*Key Provisions of the Tax Cuts and Jobs Act*

We identified 26 key provisions based upon the provision requiring a change to a tax form and affecting tax information reported on Form 1040, *U.S. Individual Income Tax Return*, Form 1120, *U.S. Corporation Income Tax Return*, Form 1120-S, *U.S. Income Tax Return for an S Corporation*, Form 1065, *U.S. Return of Partnership Income*, or Form 1041, *U.S. Income Tax Return for Estates and Trusts*. We excluded international provisions and tax-exempt provisions as these provisions were included or considered as part of other TIGTA audits. Figure 1 provides a summary of Tax Cuts and Jobs Act key tax provisions for this audit.

**Figure 1: Tax Cuts and Jobs Act Key Tax Provisions for This Audit**

Provision	Standardized Language
11001	Modification of rates.
11002	Inflation adjustments based on chained Consumer Price Index.
11011	Deduction for Qualified Business Income.
11012	Limitation on losses for taxpayers other than corporations.
11021	Increase in standard deduction.
11022	Increase in and modification of Child Tax Credit.
11041	Suspension of deduction for personal exemptions.
11042	Limitation on deduction for State and local, <i>etc.</i> , taxes.
11043	Limitation on deduction for qualified residence interest.
11044	Modification of deduction for personal casualty losses.
11045	Suspension of miscellaneous itemized deductions.
11046	Suspension of overall limitation on itemized deductions.
11048	Suspension of exclusion for qualified moving expense reimbursement.
11049	Suspension of deduction for moving expenses.
11051	Repeal of deduction for alimony payments.
12001	Repeal of tax for corporations.
12002	Credit for prior year minimum tax liability of corporations.
12003	Increased exemption for individuals.
13001	21-Percent Corporate Tax Rate.



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<b>Provision</b>	<b>Standardized Language</b>
13002	Reduction in dividend received deductions to reflect lower corporate income tax rates.
13301	Limitation on deduction for interest.
13302	Modification of net operating loss deduction.
13304	Limitation on deduction by employers of expenses for fringe benefits.
13305	Repeal of deduction for income attributable to domestic production activities.
13403	Employer credit for paid family and medical leave.
13823	Opportunity zones.

*Source: TIGTA analysis of Tax Cuts and Jobs Act provision.*



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**Appendix V**

*Additional TIGTA Audit Coverage of Tax Cuts and  
Jobs Act Provisions*

Figure 1 provides a summary of TIGTA’s audits of the Tax Cuts and Jobs Act as of November 8, 2018.

**Figure 1: TIGTA Audit Coverage of the Tax Cuts and Jobs Act**

Audit Number	Audit Title
201810022	Chief Counsel Guidance on Tax Law Changes
201810024	Tax Cuts and Jobs Act: Chief Counsel Notice 2018-54 Issuance
201810427	Tax Cuts and Jobs Act: Excise Tax on Excess Compensation of Tax-Exempt Organization Employees
201820426	Tax Cuts and Jobs Act: Assessment of Progress to Make System Modifications <sup>1</sup>
201820428	Tax Cuts and Jobs Act: Filing Season 2019 Systems Development
201830028	Implementation of the International Provisions of the Tax Cuts and Jobs Act
201830429	Tax Cuts and Jobs Act: Repatriation Tax on the Untaxed Earnings of Foreign Corporations
201840027	Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts <sup>2</sup>
201840434	Continued Assessment of the Implementation of the Tax Cuts and Jobs Act
201840435	Deduction for Qualified Business Income

*Source: TIGTA audit coverage of the Tax Cuts and Jobs Act as of November 27, 2018.*

<sup>1</sup> TIGTA, Ref. No. 2018-24-064, *A Shortened Delivery Cycle, High Volume of Changes, and Missed Deadlines Increase the Risk of a Delayed Start of the 2019 Filing Season* (Sept. 2018).

<sup>2</sup> TIGTA, Ref. No. 2018-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts* (Apr. 2018).



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Figure 2 provides a summary of TIGTA’s audit coverage of the Tax Cuts and Jobs Act provisions as of November 8, 2018.

**Figure 2: Additional TIGTA Audit Coverage of Tax Cuts and Jobs Act Provisions**

Audit Number	Provision	Standardized Language
201810427	13602	Excise tax on excess tax-exempt organization’s executive compensation.
201830028	13501	Treatment of gain or loss of foreign persons from sale or exchange of interests in partnerships engaged in trade or business within the United States.
	13503	Charitable contributions and foreign taxes taken into account in determining limitation on allowance of partner’s share of loss.
	13601	Modification of limitation on excessive employee remuneration.
	14101	Deduction for foreign-source portion of dividends received by domestic corporations from specified 10-percent owned foreign corporations.
	14102	Special rules relating to sales or transfers involving specified 10-percent owned foreign corporations.
	14103	Treatment of deferred foreign income upon transition to participation exemption system of taxation.
	14201	Current year inclusion of global intangible low-taxed income by United States shareholders.
	14202	Deduction for foreign-derived intangible income and global intangible low-taxed income.
	14211	Elimination of inclusion of foreign base company oil related income.
	14212	Repeal of inclusion based on withdrawal of previously excluded subpart F income from qualified investment.
	14213	Modification of stock attribution rules for determining status as a controlled foreign corporation.
	14214	Modification of definition of United States shareholder.
	14215	Elimination of requirement that corporation must be controlled for 30 days before subpart F inclusions apply.
	14221	Limitations on income shifting through intangible property transfers.
	14222	Certain related party amounts paid or accrued in hybrid transactions or with hybrid entities.
	14223	Shareholders of surrogate foreign corporations not eligible for reduced rate on dividends.



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Audit Number	Provision	Standardized Language
201830028 (continued)	14301	Repeal of section 902 indirect foreign tax credits; determination of section 960 credit on current year basis.
	14302	Separate foreign tax credit limitation basket for foreign branch income.
	14303	Source of income from sales of inventory determined solely on basis of production activities.
	14304	Election to increase percentage of domestic taxable income offset by overall domestic loss treated as foreign source.
	14401	Base erosion and anti-abuse tax.
	14501	Restriction on insurance business exception to passive foreign investment company rules.
	14502	Repeal of fair market value method of interest expense apportionment.
201830429	14103	Treatment of deferred foreign income upon transition to participation exemption system of taxation.
201840435	11011	Deduction for Qualified Business Income.

*Source: TIGTA analysis of audit coverage of Tax Cuts and Jobs Act provisions as of November 27, 2018.*



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**Appendix VI**

*Description of Accounts Management  
Function Positions*

<b>Position</b>	<b>Description</b>
Tax Examiners	Resolve inquiries regarding tax account issues such as tax delinquency, adjusting taxpayer's account, and providing information about general procedures on all types of individual and business accounts.
CSR	Respond to inquiries by telephone, in person, or by written or electronic mail correspondence. Inquiry topics may include either business or individual tax law, IRS collection techniques and enforcement actions, regulations, practices, tax forms, notices, bills, and other documents.
CSR – Bilingual	Perform CSR duties as described above but can address stakeholders in either English or Spanish.
CSR – Individual Tax Returns, Processing Center	Perform CSR duties as described above for individual taxpayer topics at an IRS campus facility.
CSR – Individual Tax Returns, Remote Location	Perform CSR duties as described above for individual taxpayer topics at an IRS facility other than a campus.
CSR – Business Tax Returns	Perform CSR duties as described above for business taxpayer topics.

*Source: TIGTA analysis of IRS tax examiner and CSR position descriptions.*



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**Appendix VII**

*Example of Revised Form 1040,  
U.S. Individual Income Tax Return*

<b>Form 1040</b>	Department of the Treasury—Internal Revenue Service (99)	<b>2018</b>	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
<b>Filing status:</b> <input type="checkbox"/> Single <input type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately <input type="checkbox"/> Head of household <input type="checkbox"/> Qualifying widow(er)				
Your first name and initial		Last name		Your social security number
Your standard deduction: <input type="checkbox"/> Someone can claim you as a dependent <input type="checkbox"/> You were born before January 2, 1954 <input type="checkbox"/> You are blind				
If joint return, spouse's first name and initial		Last name		Spouse's social security number
Spouse standard deduction: <input type="checkbox"/> Someone can claim your spouse as a dependent <input type="checkbox"/> Spouse was born before January 2, 1954 <input type="checkbox"/> Spouse is blind <input type="checkbox"/> Spouse itemizes on a separate return or you were dual-status alien				
Home address (number and street). If you have a P.O. box, see instructions.			Apt. no.	<b>Presidential Election Campaign</b> (see inst.) <input type="checkbox"/> You <input type="checkbox"/> Spouse
City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6.				If more than four dependents, see inst. and ✓ here <input type="checkbox"/>
<b>Dependents</b> (see instructions):				
(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see inst.):
				Child tax credit
				Credit for other dependents
				<input type="checkbox"/>
<b>Sign Here</b>				
Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.				
Joint return? See instructions. Keep a copy for your records.	Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
	Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
<b>Paid Preparer Use Only</b>		Preparer's name	Preparer's signature	PTIN
		Firm's name ▶	Firm's EIN	Check if:
		Firm's address ▶	Phone no.	<input type="checkbox"/> 3rd Party Designee
				<input type="checkbox"/> Self-employed
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.				
			Cat. No. 11320B	Form <b>1040</b> (2018)



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Form 1040 (2018)		Page <b>2</b>
	<b>1</b> Wages, salaries, tips, etc. Attach Form(s) W-2 . . . . .	<b>1</b>
Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.	<b>2a</b> Tax-exempt interest . . . . . <b>2a</b>	<b>2b</b>
	<b>3a</b> Qualified dividends . . . . . <b>3a</b>	<b>3b</b>
	<b>4a</b> IRAs, pensions, and annuities . . . . . <b>4a</b>	<b>4b</b>
	<b>5a</b> Social security benefits . . . . . <b>5a</b>	<b>5b</b>
	<b>6</b> Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22 . . . . . <b>6</b>	<b>6</b>
	<b>7</b> Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6 . . . . . <b>7</b>	<b>7</b>
<b>Standard Deduction for—</b> • Single or married filing separately, \$12,000 • Married filing jointly or Qualifying widow(er), \$24,000 • Head of household, \$18,000 • If you checked any box under Standard deduction, see instructions.	<b>8</b> Standard deduction or itemized deductions (from Schedule A) . . . . . <b>8</b>	<b>8</b>
	<b>9</b> Qualified business income deduction (see instructions) . . . . . <b>9</b>	<b>9</b>
	<b>10</b> Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0- . . . . . <b>10</b>	<b>10</b>
	<b>11</b> a Tax (see inst.) (check if any from: <b>1</b> <input type="checkbox"/> Form(s) 8814 <b>2</b> <input type="checkbox"/> Form 4972 <b>3</b> <input type="checkbox"/> ) <b>b</b> Add any amount from Schedule 2 and check here <input type="checkbox"/> <b>11</b>	<b>11</b>
	<b>12</b> a Child tax credit/credit for other dependents <b>b</b> Add any amount from Schedule 3 and check here <input type="checkbox"/> <b>12</b>	<b>12</b>
	<b>13</b> Subtract line 12 from line 11. If zero or less, enter -0- . . . . . <b>13</b>	<b>13</b>
	<b>14</b> Other taxes. Attach Schedule 4 . . . . . <b>14</b>	<b>14</b>
	<b>15</b> Total tax. Add lines 13 and 14 . . . . . <b>15</b>	<b>15</b>
	<b>16</b> Federal income tax withheld from Forms W-2 and 1099 . . . . . <b>16</b>	<b>16</b>
	<b>17</b> Refundable credits: <b>a</b> EIC (see inst.) <b>b</b> Sch. 8812 <b>c</b> Form 8863 <b>Add</b> any amount from Schedule 5 . . . . . <b>17</b>	<b>17</b>
<b>18</b> Add lines 16 and 17. These are your total payments . . . . . <b>18</b>	<b>18</b>	
<b>Refund</b>  Direct deposit? See instructions.	<b>19</b> If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you <b>overpaid</b> . . . . . <b>19</b>	<b>19</b>
	<b>20a</b> Amount of line 19 you want <b>refunded to you</b> . If Form 8888 is attached, check here <input type="checkbox"/> <b>20a</b>	<b>20a</b>
	<b>b</b> Routing number <input type="text"/> <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings <b>d</b> Account number <input type="text"/>	<b>20b</b>
	<b>21</b> Amount of line 19 you want <b>applied to your 2019 estimated tax</b> . . . . . <b>21</b>	<b>21</b>
<b>Amount You Owe</b>	<b>22</b> <b>Amount you owe</b> . Subtract line 18 from line 15. For details on how to pay, see instructions . . . . . <b>22</b>	<b>22</b>
	<b>23</b> Estimated tax penalty (see instructions) . . . . . <b>23</b>	<b>23</b>



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**Appendix VIII**

*Management's Response to the Draft Report*



COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

MAR 22 2019

MEMORANDUM FOR MICHAEL E. MCKENNEY  
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Tax Cuts and Jobs Act: Assessment of  
Implementation Efforts (Audit # 201840434)

Thank you for the opportunity to review and provide comments on the subject draft report. The Tax Cuts and Jobs Act of 2017 (TCJA)<sup>1</sup>, enacted on December 22, 2017, is one of the most significant pieces of legislation to affect tax administration since passage of the Tax Reform Act of 1986 (TRA 86)<sup>2</sup>. With respect to implementation of the two Acts, the provisions of the TRA 86 generally did not take effect until tax year 1987, which provided approximately 15 months from the date of enactment until the start of the 1988 filing season when the 1987 returns were filed. In contrast, the TCJA contained some provisions that were effective retroactively or upon the date of enactment and had a potential impact on fiscal year returns that would begin to be filed in a matter of months. Therefore, IRS started implementation activities immediately after the TCJA was signed into law.

On February 9, 2018, as we were simultaneously processing 2017 tax returns and identifying changes needed to forms, instructions, and system programming for 2018 returns, the Bipartisan Budget Act of 2018 (BBA)<sup>3</sup> was enacted. The BBA retroactively extended several tax provisions that had expired on December 31, 2016, thus requiring immediate changes, in addition to those being done for TCJA, to instructions and processing procedures for the filing season that was already underway. The implementation of both Acts required the completion of procedural and systemic changes within extremely compressed timeframes. The volume and urgency of the requisite changes presented a challenge to the IRS; however, in large part, we must echo the comments of the tax preparation software developers summarized in the

<sup>1</sup> Pub. L. No. 115-97, 131 Stat. 2054 (2017). Officially known as "An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for Fiscal Year 2018."

<sup>2</sup> Pub. L. No. 99-514, 100 Stat. 2085 (1986), enacted October 22, 1986.

<sup>3</sup> Pub. L. No. 115-123, 132 Stat. 64, (2018), Enacted H.R. 1892.



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report. Albeit at a significantly more substantial level than in previous years, the actions we took to plan and implement the TCJA and BBA can be best described as “business as usual.”

As noted in the report, the Tax Reform Implementation Office (TRIO) was established to provide a central point of coordination for all TCJA implementation activities, facilitating discussion and planning activities among the business operating divisions and functional operating divisions responsible for TCJA implementation. The TRIO provided oversight for the overall TCJA implementation, as it progressed from initial planning to final design, developing instructional and procedural guidance, identifying Information Technology system programming needs, issuing formal guidance, and communicating with taxpayers. The TRIO provided high-level coordination and facilitated implementation activities through its sponsorship of the Tax Reform Implementation Council, a working group in which subject matter experts and leadership throughout the IRS collaborated and worked together to ensure the IRS fully implemented the law and prepared taxpayers for the 2019 filing season.

We appreciate the assistance provided by the audit team during this engagement. Although this audit was performed while planning and implementation activities were underway, the auditors provided an additional level of review that identified areas where programming or written guidance might not have accomplished the intended results. Their questions echoed, or complemented issues raised by other stakeholders during our review processes and helped ensure potential issues were addressed prior to the start of the filing season. We agree with the recommendation to capture the date of divorce agreements associated with alimony payment deductions and to implement controls to prevent improper deductions. This issue will first be applicable to tax year 2019 returns and we anticipate controls will be in place when these returns are filed in 2020.

Attached are our specific proposed actions to your recommendation. If you have any questions, please contact us or a member of your staff may contact James P. Clifford, Director, Customer Account Services, Wage and Investment Division, at 470-639-3504.

Attachment



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*Tax Cuts and Jobs Act:  
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Attachment

**Recommendation**

**RECOMMENDATION 1**

The Commissioner, Wage and Investment Division, should revise the TY 2019 Form 1040, Schedule 1, to add the date of the divorce or separation agreements and create controls to prevent taxpayers from claiming the alimony deduction that originated after January 1, 2019.

**CORRECTIVE ACTION**

We agree with this recommendation and will revise the 2019 Form 1040, Schedule 1, Additional Income and Adjustments to Income, to capture the dates of divorce agreements. We will also prepare programming requirements to permit systemic identification of potentially improper deductions. Due to budgetary constraints and competing priorities for programming resources, although we expect programming to be completed by January 2020, we cannot provide an implementation date.

**IMPLEMENTATION DATE**

January 15, 2020 – Corrective Action 1, Form 1040, Schedule 1 revision.

N/A – Corrective Action 2, Systemic programming.

**RESPONSIBLE OFFICIAL**

Director, Customer Assistance, Relationships and Education, Wage and Investment Division – Corrective Action 1, Form 1040, Schedule 1 revision.

Director, Submission Processing, Customer Account Services, Wage and Investment Division – Corrective Action 2, Systemic programming.

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor these corrective actions as part of our internal management control system.