

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **Processes Do Not Ensure That Individual Taxpayer Identification Numbers Are Issued Only to Qualifying Individuals With a Tax Administration Need**

September 17, 2020

Reference Number: 2020-40-064

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Redaction Legend:

1 = Tax Return/Return Information

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

3 = Personal Privacy Information

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# HIGHLIGHTS: Processes Do Not Ensure That Individual Taxpayer Identification Numbers Are Issued Only to Qualifying Individuals With a Tax Administration Need



Final Audit Report issued on September 17, 2020  
Reference Number 2020-40-064

## Why TIGTA Did This Audit

This audit was initiated because the Protecting Americans From Tax Hikes Act of 2015 (PATH Act) requires TIGTA to conduct an audit of the issuance of Individual Taxpayer Identification Numbers (ITIN) not later than two years after enactment and every two years thereafter.

The overall objective of this review was to determine whether the IRS has established effective processes to ensure that only individuals with a tax need are assigned an ITIN. Prior TIGTA audits identified weaknesses in the ITIN Program that increase the risk that individuals filing questionable applications will be assigned an ITIN.

## Impact on Taxpayers

The IRS issues an ITIN to individuals who are required to have a Taxpayer Identification Number but do not have or are not eligible to obtain a Social Security Number. An ITIN allows individuals to obtain substantial Federal tax benefits. As of December 7, 2019, the IRS had issued more than 24 million ITINs.

## What TIGTA Found

While the IRS has made some improvements since our last review, there are indications that there is a reduced emphasis on identifying questionable ITIN applications, which is similar to the problem that TIGTA reported in July 2012. For example, the IRS does not require individuals to show they have a tax filing need (*i.e.*, provide a tax return) prior to renewing their ITIN. The IRS renewed 38,597 ITINs between January 2017 and April 2019 for the purpose of filing a tax return that have not been used on a tax return since being renewed.

Between April 2017 and May 2019, the IRS issued 562 ITINs to individuals who used the same identifying information to apply for an ITIN and 2,239 ITINs to individuals who used duplicate supporting documents. In addition, the IRS still has not implemented processes to identify applications \*\*\*\*\*2\*\*\*\*\* that use duplicate supporting documents.

The IRS does not ensure that the Secondary Review Team has sufficient time to complete its review to identify potentially fraudulent ITIN applications before ITINs are issued. The IRS also has not implemented processes to revoke or deactivate ITINs associated with applications that the Secondary Review Team identifies as having potentially fraudulent supporting documents.

Finally, the IRS continues to allow CAAs to authenticate the identity and foreign status of ITIN applicants despite its own compliance reviews of CAAs that identify significant noncompliance with program requirements. The IRS terminated 515 CAAs from the program during Fiscal Years 2016 through 2019. However, the IRS allows CAAs it has removed from the program due to significant noncompliance to apply the next year for reentry into the program. The IRS removes CAAs for failure to prove identity and foreign status of applicants and failure to submit complete or accurate documentation. Of the 94 CAAs that were terminated in Fiscal Year 2016, 15 reapplied to the program and are currently active CAAs.

## What TIGTA Recommended

TIGTA made 24 recommendations, including requiring individuals to provide proof of a tax need before renewing an ITIN, implementing processes to identify ITIN applications that use duplicate supporting documents, establishing processes to revoke or deactivate ITINs that are associated with applications identified as having potentially fraudulent supporting documents, and discontinue allowing CAAs to authenticate an applicant's identity and foreign status.

The IRS agreed with 13 of the 24 recommendations and disagreed with 11 recommendations, including the recommendation to discontinue allowing CAAs to authenticate an applicant's identity and foreign status.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

**U.S. DEPARTMENT OF THE TREASURY**

**WASHINGTON, D.C. 20220**

September 17, 2020

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

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

**SUBJECT:** Final Audit Report – Processes Do Not Ensure That Individual Taxpayer Identification Numbers Are Issued Only to Qualifying Individuals With a Tax Administration Need (Audit # 201940005)

This report presents the results of our review to determine whether the Internal Revenue Service has established effective processes to ensure that only individuals with a tax need are assigned an Individual Taxpayer Identification Number. This review is part of our Fiscal Year 2020 Annual Audit Plan and addresses the major management and performance challenge of *Reducing Fraudulent Claims and Improper Payments*.

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

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



## Processes Do Not Ensure That Individual Taxpayer Identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

### Background

Section 203 of the Protecting Americans From Tax Hikes (PATH) Act of 2015,<sup>1</sup> enacted on December 18, 2015, requires the Treasury Inspector General for Tax Administration (TIGTA) to conduct an audit of the issuance of Individual Taxpayer Identification Numbers (ITIN)<sup>2</sup> and report to the Senate Committee on Finance and the House Committee on Ways and Means not later than two years after the PATH Act's enactment and every two years thereafter. The most recent report was due to Congress on December 18, 2019. On October 25, 2019, we notified the majority and minority staff of the Senate Committee on Finance and the House Committee on Ways and Means that our report would be delayed to provide time to follow up on allegations that we received toward the end of our fieldwork from two Internal Revenue Service (IRS) employees who work in the ITIN unit processing applications. The allegations related to controls and process breakdowns that they believe are resulting in the fraudulent issuance of ITINs.

The PATH Act also requires the IRS to deactivate ITINs based on nonuse and the issuance date of the ITIN. As of December 7, 2019, the IRS has issued more than 24 million ITINs. In response to the PATH Act, the IRS has deactivated more than 17.8 million ITINs.<sup>3</sup>

### Process to obtain an ITIN

An ITIN is issued by the IRS to individuals who are required to have a Taxpayer Identification Number (TIN) for Federal tax purposes but do not have and are not eligible to obtain a Social Security Number (SSN). To obtain an ITIN, an individual, his or her spouse, or qualifying dependent(s) must complete Form W-7, *Application for IRS Individual Taxpayer Identification Number*, and mail it to the IRS Submission Processing Center in Austin, Texas, or provide it in person to an IRS assistant at a Taxpayer Assistance Center (TAC) or a Certifying Acceptance Agent (CAA). All individuals applying for a new ITIN must show they have a tax need for an ITIN by attaching a tax return or indicating that they are applying under an exception, such as claiming U.S. tax benefits under a tax treaty.<sup>4</sup> Individuals who are requesting an ITIN for treaty purposes must also provide the treaty country and treaty article number.

Applicants must also provide adequate supporting documentation to prove their identity, foreign status, and residency. At least one document provided by individuals who are 18 years of age or older and not a student must include a recent photograph of themselves. Applicants claimed as dependents must also prove U.S. residency.<sup>5</sup> Applicants are required to submit one of three documentation types:

- **Original documents** – documents that are not changed from their initial issuance *i.e.*, not a copy or a replica.

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

<sup>2</sup> See Appendix V for a glossary of terms.

<sup>3</sup> Deactivated ITINs can be renewed. As such, not all deactivated ITINs remain inactive.

<sup>4</sup> Individuals may obtain an ITIN without a requirement to file a tax return if they are applying for an ITIN because they receive passive income that is subject to third-party withholding, third-party reporting of mortgage interest, or other income that is covered by a tax treaty.

<sup>5</sup> For Tax Year 2017 and prior, proof of U.S. residency was not required if the dependent was from Mexico or Canada or was a dependent of U.S. military personnel stationed overseas.



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- **Certified copies** – documents that the original issuing agency provides and certifies as an exact copy of the original and that contain an official stamp or ink seal from the issuing agency or an embassy or consulate. For example, a foreign issuing agency could provide a certified copy of the applicant’s passport. Faxes and photocopies are not acceptable supporting documents.
- **Notarized copies** – documents that are notarized are only accepted in a few instances, such as those in which military spouses and military dependents without an SSN need an ITIN.

### Processing ITIN applications

The ITIN unit in the Austin Submission Processing Center is responsible for processing all ITIN applications. According to the IRS, the mission of this unit is to “ensure that ITINs are issued timely to qualifying individuals and used only for tax administration purposes.” For Calendar Year 2019, the IRS reported that it received 532,041 Forms W-7 and issued 374,394 ITINs as of December 29, 2019. As of December 31, 2019, the IRS had issued more than 24 million ITINs.

The ITIN Unit uses the ITIN Real-Time System (RTS) to process Forms W-7, issue ITIN application correspondence, and revoke ITINs.<sup>6</sup> The system also provides data to management for use in administering the ITIN Program and transmits data to update the National Account Profile (NAP) with the applicant’s information once an ITIN is assigned, which then updates the Individual Master File (IMF). Tax examiners in the ITIN unit manually review and process ITIN applications and supporting documentation. Based on the tax examiner’s review and RTS input, the ITIN application will either be:

- **Assigned** – The IRS mails a Computer Paragraph (CP) 565, *ITIN Assignment Notice*, with the assigned ITIN to the applicant.
- **Rejected** – The IRS mails a CP 567, *ITIN Rejection Notice*, informing the individual that the ITIN application was rejected. The notice provides the reason for the rejection, and the individual must file another application if he or she would like to reapply for an ITIN.
- **Suspended** – The ITIN application is suspended for a procedural issue (such as an incomplete Form W-7 application) or because it has questionable information (such as inadequate supporting identification documents). The IRS mails a CP 566, *ITIN Suspense Notice*, to request additional information, and the applicant has 45 days to respond.

Once the ITIN tax examiner has processed the ITIN application, a systemic hold in the RTS is imposed to delay the issuance of the ITIN for three days to allow the IRS to perform additional reviews. These reviews assess the accuracy of the processing of the ITIN application, review Personally Identifiable Information (PII) used to ensure original supporting documents are returned to the correct applicant, and identify potentially fraudulent applications. Figure 1 describes the reviews the IRS conducts of ITIN applications during the systemic three-day hold period.

<sup>6</sup> ITINs are revoked when the taxpayer obtains an SSN or is deceased or when an ITIN was assigned in error.



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**Figure 1: ITIN Post-Processing Reviews**

Review	Description of Review
Quality Review	A quality reviewer pulls a random sample of applications completed by each tax examiner and reviews the applications to determine whether the tax examiner followed established procedures.
PII Review	In October 2018, the ITIN Program implemented the PII review to help ensure that original documents are being returned to the applicant listed on the Form W-7. ITIN clerks review all applications to ensure that the name, address, and original documents listed in the ITIN letter match the name and address on the corresponding Form W-7 application and the original documents.
Secondary Review Team (SRT) Review	The SRT uses a skip interval of 10 or less and pulls a sample of applications that tax examiners have flagged as questionable during processing. The SRT reviews only applications with attached tax returns. The SRT reviews the applications to identify patterns of questionable identification documents. If the SRT disagrees with the tax examiners' original determination, the applications are sent to be reworked.

Source: TIGTA review of the IRS Internal Revenue Manual and walkthroughs of IRS processes.

For applications with no identified concerns, the IRS accepts the application. A tax examiner then sends the applicant the ITIN notification letter (CP 565) confirming the issuance of the ITIN, returns any original supporting documents to the applicant, and sends tax returns submitted with the application for processing. The ITIN Unit forwards the Form W-7 application and related documents to the IRS Files unit in the Austin Submission Processing Center for storage. For those applications identified as requiring additional information from the applicant, the IRS suspends the processing of the application and sends the applicant a CP 566 requesting the additional information. If the applicant does not respond or the response does not adequately address the issue, the Form W-7 application is rejected.

**Prior TIGTA reports raised concerns about the IRS’s ability to identify individuals filing fraudulent ITIN applications**

Since Calendar Year 2012, we have issued five reports addressing weaknesses in the IRS’s ITIN Program which increase the risk that individuals filing questionable applications will be assigned an ITIN.<sup>7</sup> Our latest report, issued in January 2018,<sup>8</sup> was the first report we were required to issue per the PATH Act. We reported that the IRS did not provide the required ITIN study by its due date. The PATH Act required the IRS to conduct a study on the effectiveness of the ITIN application process before and after implementation of the PATH Act provisions. The IRS submitted the required study to the Senate Committee on Finance and the House Committee on Ways and Means on June 5, 2018. The IRS reported that there was a reduction in potential fraud after the ITIN application procedures became more stringent in Calendar Year 2013.

<sup>7</sup> See Appendix III for a list of these reports.

<sup>8</sup> TIGTA, Ref. No. 2018-40-010, *Processes Need to Be Improved to Identify Incomplete and Fraudulent Applications for Individual Taxpayer Identification Numbers* (Jan. 2018).



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We also reported that the IRS had not established processes to ensure that ITINs issued for tax treaty purposes are used solely for those purposes and that the RTS prevented tax examiners from entering key information from supporting documentation for certain types of applications. As a result, the IRS was unable to identify applications with potentially false or fraudulent supporting documentation via its systemic validation and verification processes. Finally, we found that IRS processes did not sufficiently reduce the risk associated with CAAs and their verification of identity and foreign status of ITIN applicants. See Appendix III for details on prior TIGTA reports regarding the ITIN Program.

### Results of Review

In January 2018, we reported that the IRS had not implemented all of the PATH Act requirements, including establishing a process to ensure that ITINs issued for tax treaty purposes are used solely for such purposes. We also reported that the IRS did not have systemic processes to identify questionable ITIN applications using potentially false or fraudulent supporting documents. While the IRS has made some improvements since our last review, there are indications that management has reduced its emphasis on identifying questionable ITIN applications, which is similar to what we reported in July 2012. Furthermore, we received allegations from IRS employees that were similar to allegations we received in 2012. These employees raised concerns regarding the issuance of ITINs based on suspicious or fraudulent applications. The details of the allegations are noted below, followed by our conclusions.

- **Allegation #1** (August 2019) – IRS management has not acted on concerns raised by the SRT regarding the impact of the PII review on the SRT's ability to complete its ITIN application reviews to prevent fraudulent ITINs from being issued. In addition, the employee alleged that the ITIN Program Office took no action to deactivate 206 potentially fraudulent ITINs identified by the SRT that had already been issued.

Our review substantiated this allegation. We found that the ITIN Program Office did not deactivate the potentially fraudulent ITINs provided by the SRT. In addition, we found that the time frame relating to the PII review does not provide the SRT adequate time to complete its review to prevent fraudulent ITINs from being issued. (See page 11 for more detailed information.)

- **Allegation #2** (September 2019) – The IRS is approving applications for individuals who are not using their legal last name. The allegation stated that many applicants could be using variations of their legal last name and married name to apply for and obtain multiple ITINs.

Our review did not substantiate this allegation. Our analysis of more than 2.4 million ITIN applications processed from April 2017 to May 2019 identified \*\*\*\*1\*\*\*\* applications for which ITINs have been assigned that have the same first name and country of birth but different last names.

Finally, as we previously reported, the IRS continues to delegate its responsibility for authenticating applicants' identity and foreign status to the CAAs. This is despite the fact that the IRS's annual CAA compliance reviews continue to show that a high percentage of the CAAs are not compliant with program requirements. A large percentage of the CAAs reviewed have



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been removed from the program. As such, we continue to believe that the processing and verification of ITIN applications should be performed only by the IRS.

### Processes Do Not Ensure That Individuals Who Renew an Individual Taxpayer Identification Number Have a Tax Administration Need

The IRS is renewing ITINs without ensuring that the individual has a continued Federal tax administration need to retain the ITIN. Unlike new ITIN applicants, the IRS does not require individuals to show they have a tax filing need (*i.e.*, provide a tax return) in order to renew their ITIN. Our review of RTS data identified 38,597 ITINs that were renewed between January 2017 and April 15, 2019, whereby the applicant cited on the renewal application that the purpose for renewing the ITIN was to file a tax return. However, the ITIN has not been used on a tax return since being renewed. For 6,927 (18 percent) of the 38,597 ITINs, there was also no tax return filing history prior to the renewal. Figure 2 shows a comparison of the application requirements for a new ITIN applicant and an applicant who is renewing an ITIN based on the reason for the ITIN request.

**Figure 2: ITIN Application Requirements by Application Type**

Reason for Requesting an ITIN	Tax Return Required	
	New	Renewal
Nonresident alien required to get an ITIN to claim tax treaty benefits	No	No
Nonresident alien filing a U.S. Federal tax return	Yes	No
U.S. resident alien (based on days present in the United States) filing a U.S. Federal tax return	Yes	No
Dependent of a U.S. citizen/resident alien that can be claimed on a U.S. Federal tax return	Yes	No
Spouse of a U.S. citizen/resident alien that can be claimed on a U.S. Federal tax return	Yes	No
Nonresident alien student, professor, or researcher filing a U.S. Federal tax return	Yes	No
Nonresident alien student, professor, or researcher claiming an exemption	No	No
Dependent or spouse of a nonresident alien holding a U.S. visa that can be claimed on or is a spouse on a U.S. Federal tax return	Yes	No
Other (e.g., to facilitate the filing of third-party information returns)	No	No

Source: Form W-7, related instructions, and IRS Internal Revenue Manual.

We shared our concerns with IRS management on January 9, 2020. IRS management reviewed 16 of the 6,927 ITINs we identified with no tax filing history and confirmed that 11 of the 16 ITINs have not been used on a tax return since being renewed and one has been revoked. IRS management found that the remaining four ITINs had been used as dependents on a tax return or were corrected during processing, neither of which are captured in the data we used for our analysis. IRS management informed us that they are not concerned that the ITINs we



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identified have not been used on a tax return since being renewed because individuals have three years to file a tax return after renewing their ITIN. However, IRS management also informed us that, in February 2020, the IRS began rejecting renewal applications for spouse and dependent ITINs if a tax return was not attached. According to IRS management, this process change was put in place in response to the Tax Cuts and Jobs Act temporarily eliminating the personal tax exemption. While the revised procedures should help ensure that spouse and dependent ITINs are renewed if there is a continued tax need, these procedures still do not ensure that all other individuals renewing an ITIN have a continued need for it.

**Recommendation 1:** The Commissioner, Wage and Investment Division, should require all individuals who are renewing an ITIN to provide a tax return or other documentation to show they have a continued tax filing need for it.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that all ITIN applicants, including applicants renewing an ITIN, are required to attach a tax return or other documentation to support their tax administration need or criteria under which they are applying for the number. IRS management also stated that, with the Tax Cuts and Jobs Act suspension of personal exemptions for all taxpayers through Calendar Year 2025, spouses and dependents who still require an ITIN must attach a tax return as evidence that they are indeed claiming an allowable tax benefit in order to obtain an ITIN.

**Office of Audit Comment:** The IRS incorrectly states in its response that all individuals renewing an ITIN are required to attach a tax return or provide other documentation. As shown in Figure 2 of this report, there is no such requirement. Furthermore, if there was such a requirement, our analysis shows that individuals are not complying and the IRS is renewing ITINs for individuals without proof of a filing requirement.

## The Internal Revenue Service Is Still Not Complying With the Legal Requirement to Ensure That Individual Taxpayer Identification Numbers Issued for Tax Treaty Purposes Are Used for Such Purposes

The IRS has still not established processes to ensure that ITINs issued for tax treaty purposes are used only for such purposes. The PATH Act requires the Secretary of the Treasury to:

*Implement a system that ensures that Individual Taxpayer Identification Numbers issued solely for purposes of claiming tax treaty benefits are used only for such purposes, by distinguishing such numbers from other Individual Taxpayer Identification Numbers issued.<sup>9</sup>*

In January 2018, we first reported that the IRS has not established processes to ensure that ITINs issued for tax treaty purposes are used to claim only tax treaty benefits. We recommended that the IRS establish the required processes. IRS management disagreed with our recommendation, stating that their current processes fully comply with the requirements of the PATH Act. They stated that the IRS can distinguish ITINs issued solely for tax treaty benefits from other ITINs and can ensure that these ITINs are used only for such purposes.

<sup>9</sup> Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, 129 Stat. 2242 (2015).



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As noted in our prior report, IRS management's statement is inaccurate because no processes have been developed to ensure that these ITINs are used for their intended purpose. Our testing continues to show that, once ITINs are assigned to applicants who cite a need to claim a tax treaty benefit, the majority of these ITINs are not used for tax treaty reporting purposes. For example, our review of ITIN data for the period April 2017 to May 2019 identified 11,939 ITINs that were issued or renewed for which the applicants cited a tax treaty purpose. Of these 11,939 ITINs, 6,384 were used on a tax return, yet *only 119* (1.9 percent) were used in support of a tax treaty claim (*i.e.*, the purpose for which the ITIN was issued).

In the IRS's June 2018 ITIN study report to the Senate Committee on Finance and the House Committee on Ways and Means, the IRS recommended that this provision of the PATH Act be repealed or revised because the IRS does not intend to issue a class of ITINs that can be used only for claiming tax treaty benefits.

**Recommendation 2:** The Commissioner, Wage and Investment Division, should implement processes to identify ITINs issued solely for the purpose of claiming tax treaty benefits that are not being used for such purpose. Once identified, the IRS should correspond with the ITIN holder to identify the purpose for which he or she continues to need an ITIN and update the RTS accordingly.

**Management's Response:** The IRS disagreed with this recommendation. The IRS's position is that an ITIN issued for purposes of claiming tax treaty benefits is also valid for filing tax returns for which the individual may subsequently be liable. As with ITINs requested at the time an initial tax return is filed, ITINs issued for tax treaty benefit purposes must also be used at least once on a tax return within a consecutive three-year period. If not used, they are deactivated. The IRS applies the same degree of rigorous scrutiny to applicants requesting an ITIN for tax treaty benefit purposes as it does to all ITIN applicants.

**Office of Audit Comment:** The IRS's policy is not in compliance with PATH Act requirements. In addition, its unwillingness to update the ITIN database to accurately reflect the purpose of the ITIN results in unreliable data.

## Sufficient Actions Have Not Been Taken to Address Prior Programming Change Recommendations

Although IRS management has taken some actions to address our prior recommendations, no actions have been taken to address the recommendations in our January 2018 report that require computer programming changes. As a result, processes to identify potentially fraudulent ITIN applications continue to be deficient. For example:

- ***Multiple ITINs continue to be issued to individuals with the same PII.*** In January 2018, we reported that our review of RTS data as of March 2017 identified 44,532 ITINs issued to individuals who used the same \*\*\*\*\*2\*\*\*\*\* \*\*2\*\* to apply for an ITIN. We recommended that the IRS review these ITINs and revoke those that are determined to be invalid. The IRS determined that 39,423 ITINs did not require any action as further research indicated they were not duplicates. The IRS took necessary action on 1,420 ITINs and is still reviewing the remaining 3,681 ITINs. Although improved, our review of RTS data from April 2017 to May 2019 still identified



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562 ITINs that were issued to individuals who used the same \*\*\*\*\*2\*\*\*\*\*  
\*\*\*\*\*2\*\*\*\*\* to apply for an ITIN. When we discussed our concerns with IRS management, they did not provide any reason as to why these ITINs were issued to individuals with the same PII.

- **Systemic processes to identify ITIN applications that use duplicate supporting documents have not been implemented.** In January 2018, we reported that, as of March 2017, the IRS issued 10,924 ITINs to individuals who used the same supporting documents (e.g., driver's license, passport number) when applying for an ITIN. We recommended that the IRS review these ITINs and revoke those that are determined to be invalid. As of March 6, 2020, IRS management has yet to provide us with details as to the actions taken to address these 10,924 ITINs. Although improved, our review of RTS data as of May 2019 identified 2,239 active ITINs issued from April 2017 to May 2019 to individuals who used duplicate supporting documents.

When we discussed our concerns with IRS management, they stated that the RTS does not have the capacity to systemically identify ITIN applications that use duplicate supporting documents. IRS management indicated that, as an interim measure, they will run a monthly ITIN extract to identify applications that use the same supporting documents for additional review. IRS management stated that the first monthly ITIN extract that would include the supporting documents on the CAA and TAC applications would be available in January 2020. As of February 20, 2020, IRS management had performed the first monthly extract and stated that they did not identify any CAA/TAC applications using the same identification documents.

- **Information needed to identify fraudulent ITIN applications still is not captured in the RTS.** In January 2018, we reported that key identifying information from applications \*\*\*\*\*2\*\*\*\*\* were not captured in the RTS. This information includes the \*\*\*\*\*2\*\*\*\*\*  
\*\*\*\*\*2\*\*\*\*\* and is needed to identify questionable applications. In response to our recommendation, the IRS submitted a request for computer programming changes in February 2018. However, IRS management noted that these requested programming changes were discontinued due to competing priorities in July 2018 after expending 770 staff hours. Our review of RTS data found that, from April 2017 to May 2019, the IRS issued 466,261 ITINs for applications received \*\*\*\*\*2\*\*\*\*\* and 217,578 ITINs for applications received from \*\*\*\*\*2\*\*\*\*\*. Information from these applications needed to identify questionable submissions is still not captured.

We notified IRS management on July 25, 2019, of our concerns that the IRS is still not capturing key identifying information from applications \*\*\*\*\*2\*\*\*\*\*  
\*\*\*2\*\*\*. In response to our concerns, IRS management submitted a new request for programming changes on August 27, 2019, with a requested implementation date of June 2020. However, in the interim, IRS management modified internal guidelines to require tax examiners to use alternate fields in the RTS to input the supporting document identifying information \*\*\*\*\*2\*\*\*\*\*. This will allow key information to be captured in the RTS for review and analysis that can help the IRS identify questionable applications that use the same supporting documents.

- **Processes do not ensure that revoked ITINs and ITINs assigned to deceased individuals are deactivated.** In January 2018, we reported that 8,110 revoked ITINs and 567 ITINs assigned to deceased individuals in the RTS remained active and available for



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use to file tax returns. We recommended that the IRS review these ITINs and take appropriate steps to ensure that they are deactivated if warranted. The IRS locked<sup>10</sup> the individual's tax account for all 567 ITINs we identified as being assigned to a deceased individual. The estimated completion for the review of the 8,110 revoked ITINs was extended to April 2020 because the tax accounts associated with 4,818 ITINs are associated with an SSN or other ITIN and the accounts need to be merged.

While some improvement has been made, our analysis of RTS data from April 2017 to May 2019 continues to identify revoked ITINs and ITINs assigned to deceased individuals that remain actively assigned and available for use to file a tax return. We identified 115 revoked ITINs and 92 ITINs assigned to a deceased individual that are still active. We provided these results to the IRS on August 9, 2019. IRS management stated that no actions are needed on 26 revoked ITINs as they are accounts of deceased individuals or not currently active accounts. IRS management also stated that no actions are needed on 41 ITINs assigned to deceased individuals because there are already deceased locks on their tax accounts. IRS management agreed that the remaining 140 ITINs should not be active and stated that they will review the ITINs and take the appropriate actions to ensure that the ITINs cannot be used to file a tax return. However, IRS management did not provide any reason why these ITINs remained active.

The Commissioner, Wage and Investment Division, should:

**Recommendation 3:** Ensure that employees are aware of the processes and procedures to review ITIN applications when the ITIN applicant has the \*\*\*\*\*2\*\*\*\*\* \*\*\*\*2\*\*\*\* as another ITIN holder and are taking appropriate actions as outlined in current procedures.

**Management's Response:** The IRS agreed with this recommendation. IRS management requires all employees to adhere to the internal guidelines with respect to ITIN processes and procedures, including those that relate to potential duplicate applications. IRS management also reiterates this guidance in annual training for employees, monitors adherence to the guidelines through the quality review process, and provides feedback when applicable.

**Recommendation 4:** Ensure compliance with interim processes to capture key information from supporting documents associated \*\*\*\*\*2\*\*\*\*\* in the RTS and that the information captured in the RTS is used to identify questionable applications to be addressed.

**Management's Response:** The IRS agreed with this recommendation. IRS management updated internal guidelines on January 2, 2020, to capture key information from supporting documents associated \*\*\*\*\*2\*\*\*\*\*. IRS management stated that they will ensure compliance with these interim processes.

<sup>10</sup> A deceased taxpayer lock prevents the use of a deceased individual's TIN to file a tax return. When a tax account is locked, the tax return is prevented from posting to the tax account.



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**Recommendation 5:** Ensure that monthly analysis of ITIN RTS data is performed to identify Form W-7 applications submitted using duplicate supporting documents and take actions on the identified applications as appropriate.

**Management's Response:** The IRS agreed with this recommendation. As of March 16, 2020, IRS management completed its monthly analysis of ITIN RTS data to identify duplicate use of supporting documents and has taken appropriate actions.

**Recommendation 6:** Review the 562 ITINs with \*\*\*\*\*2\*\*\*\*\*  
\*\*\*2\*\*\* and the 2,239 ITINs with duplicate supporting documents that TIGTA identified and take appropriate actions to revoke or deactivate the ITINs.

**Management's Response:** The IRS agreed with this recommendation. The IRS plans to review the ITINs identified and take actions to revoke or deactivate them as needed.

**Recommendation 7:** Develop processes and procedures to identify active ITINs assigned to individuals whose ITIN was revoked or who are deceased and take appropriate actions to deactivate the ITIN or add a deceased lock on their tax account.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that existing procedures allow them to adequately identify this scenario and take actions to deactivate or add a deceased lock on a tax account when applicable. Systemic programming is in place to identify accounts of deceased ITIN holders when the IRS becomes aware of their death. Accounts of decedents are systemically locked in the year after the year of death, and the ITIN is deactivated.

**Office of Audit Comment:** IRS processes have significantly reduced the number of active ITINs assigned to individuals whose ITIN was revoked or who are deceased. However, we as discussed in our report, we still identified 140 revoked ITINs and ITINs issued to deceased individuals that should have been deactivated and were not. At a minimum, the IRS should evaluate its current processes and procedures to determine why these 140 ITINs were not deactivated.

**Recommendation 8:** Review the 89 ITINs identified as revoked and still active and the 51 ITINs assigned to deceased individuals that are not locked that TIGTA identified and take appropriate action to deactivate the ITINs or add a deceased lock on the tax account.

**Management's Response:** The IRS agreed with this recommendation. IRS management plans to review the ITINs identified and take appropriate actions to deactivate them or lock the decedents' accounts.

## Processes Are Needed to Revoke or Deactivate Individual Taxpayer Identification Numbers When the Secondary Review Team Determines That Application Supporting Documents Are Potentially Fraudulent

After our report in July 2012, IRS management had improved its oversight of the ITIN application process; however, management has reverted back to a reduced emphasis on identifying questionable ITIN applications. Although the IRS states that the mission of the ITIN Program is to ensure that ITINs are issued timely to *qualifying individuals*, IRS management's primary focus continues to be on quickly issuing ITINs.



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As previously discussed, in August 2019, we received an allegation from an IRS employee. The allegation and our findings are as follows.

- **The SRT is not given adequate time to review ITIN applications to prevent the issuance of an ITIN based on a fraudulent application.** Our review found that, in October 2018, IRS management implemented a review (referred to as the PII review) of all applications to help ensure that original documents submitted with ITIN applications are returned to the correct individual. This review was conducted during a three-day hold of the ITIN notification letter before it is sent to the applicant. This three-day hold is established by management and is the same time frame that the SRT is given to review applications for potential fraud. As a result of the PII review, the SRT is no longer able to complete its review of the applications before ITINs are issued.

On March 29, 2019, the SRT notified IRS management that, since the implementation of the PII review, there have been instances in which ITINs are being assigned for Form W-7 applications with potentially fraudulent identification documents before the SRT can review and revoke the application. Management took no action to address the concern raised by individuals in the SRT. As a result of management inaction, ITINs were issued based on applications with potentially fraudulent identification documents.

- **Management took no action to deactivate ITINs identified by the SRT as fraudulent.** On October 15, 2018, IRS management was notified of \*\*\*\*\*1\*\*\*\*\* associated with applications that SRT had identified as having fraudulent supporting documents. IRS management was requested to deactivate these \*\*\*\*1\*\*\*\*. IRS management denied the SRT's request, stating that *there were no processes in place to deactivate an ITIN after it is issued.* On October 17, 2018, the SRT provided IRS management with a list of 241 applications that, based on its review, had fraudulent supporting documents. These applications were filed using two common addresses. The IRS had issued ITINs for 206 of the 241 applications. Each of these ITINs were issued before the SRT could complete its review.

Our analysis of Form W-7 applications received from March 2002 through April 2019 identified 1,244 ITINs issued from 2,227 applications that used the same two addresses associated with the 241 applications the SRT identified as having fraudulent supporting documentation. Of the 1,244 ITINs, 613 are currently active and can be used on tax returns.

After we brought this information to IRS management's attention, IRS management stated that they would move the PII review after the SRT review to allow the SRT the time needed to review applications. IRS management also submitted a programming change request on January 16, 2020, to create a manager suspense action in the RTS to review applications with questionable documents. The implementation date of this programming request is January 21, 2021. In addition, IRS management reviewed the list of 241 applications provided by the SRT and indicated that 118 applications were assigned ITINs; 39 of these ITINs were assigned after the SRT established the application pattern,<sup>11</sup> and three of the ITINs were assigned after the initial application was suspended and the applicant provided additional documentation supporting the issuance of the ITIN. IRS management agreed to deactivate the 76 ITINs assigned before the SRT established the application pattern. IRS management also reviewed the 613 active ITINs we identified for which the applicants used one of the

<sup>11</sup> A pattern of characteristics that are common to a group of questionable applications



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two addresses also used on the 241 applications identified by the SRT as having potentially fraudulent supporting documents. IRS management stated that they will deactivate 80 of these ITINs as they were issued before the SRT established the application pattern and that the other ITINs will be deactivated if they were not used on a Federal tax return within the last three years.

The Commissioner, Wage and Investment Division, should:

**Recommendation 9:** Move the PII review after the SRT review to allow the SRT more time to review ITIN applications before ITINs are issued.

**Management's Response:** The IRS agreed with this recommendation. On January 15, 2020, IRS management reversed the order of the PII and SRT reviews to allow SRT employees more time to review ITIN applications before the ITINs are issued.

**Recommendation 10:** Establish an additional suspense action in the RTS to allow the SRT to suspend certain types of applications if additional time is needed to complete its review of the application. Until programming to establish the additional suspense action is implemented, the IRS should extend the three-day hold period in the RTS to allow the SRT time to complete its review to identify potentially fraudulent Form W-7 applications and ensure that actions are taken to prevent the issuance of the ITIN.

**Management's Response:** The IRS agreed with this recommendation. However, the IRS will not extend the three-day quality review hold period in the RTS. As an alternative interim measure, IRS management has updated procedural guidance for the SRT to refer ITIN applications assigned or renewed in error to management for review and deactivation.

**Recommendation 11:** Review the 39 ITINs identified by the SRT and 613 active ITINs identified by TIGTA for which the Form W-7 application used an address identified by the SRT as part of a pattern of Form W-7 applications with potentially fraudulent supporting documents to determine whether the ITINs need to be revoked or deactivated.

**Management's Response:** The IRS agreed with this recommendation. The IRS plans to review the ITINs identified by the SRT and TIGTA and take appropriate actions.

**Recommendation 12:** Develop processes and procedures to revoke or deactivate ITINs after issuance when the SRT determines the supporting documents submitted with the application are fraudulent.

**Management's Response:** The IRS agreed with this recommendation and has updated its internal guidelines to allow a designated manager to deactivate ITINs after issuance when the SRT determines supporting documents submitted with the application are potentially fraudulent.

## Improvements to the Real-Time System Access Controls Are Needed

Our review of a list of approved RTS users as of July 16, 2019, identified 201 separated IRS employees who were still listed as an active user on the system. We found that no accesses were made to the RTS by these employees after they separated from the IRS. We also identified



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42 active RTS users who, based on their current position within the IRS, do not appear to have a valid business need to have access to the RTS system.

We shared these results with the IRS on December 4, 2019. IRS management explained that, when he or she separates from the IRS, an employee is supposed to be removed from IRS computer system access by the Personnel Action Request. This information is transmitted daily to designated computer security areas to ensure that the employee's access to computer systems is timely revoked based on the effective date of the request. IRS management could not provide a reason why these 201 separated employees were not removed from the RTS. IRS management stated that they will take the steps necessary to remove user access for the 201 former employees we identified.

IRS management also reviewed the list of 42 RTS users we identified who are still active on the RTS but do not have a business need. IRS management indicated that 41 of the 42 employees had a recent change of position and their prior position required RTS access. IRS management did not provide reasons why these employees' access to the RTS was not removed. However, IRS management stated that they will coordinate with the 42 employees' managers to confirm whether access to the RTS is still needed, and actions will be taken to remove them from the system if appropriate. As an additional measure, IRS management stated that they will periodically (*i.e.*, quarterly) review the RTS user list and take appropriate action to remove users who no longer have a need for RTS access. IRS management later confirmed that RTS access has been removed for the 201 separated employees and the 42 individuals we identified as not having a business need. IRS management stated that, at the time of our review, the required action had been taken to request the employees' removal from the system. However, the system administrator had not yet completed the removal action.

## **Processes Do Not Ensure That Sensitive Original Documents Are Tracked and Safeguarded**

The ITIN Program does not have adequate processes and procedures to ensure that original and certified copies of documents (birth certificates, passports, *etc.*; hereafter referred to as original documents) are properly tracked and returned to the applicant. As of October 17, 2019, the ITIN unit has been unable to return 16,897 original supporting documents, of which 7,353 are passports, to the applicant, citing that it does not have a current address for the applicant. For example, the documents were returned by the U.S. Postal Service as undeliverable, or the IRS cannot associate the documents with the received application.

Insufficient controls over original documents increase the risk that these documents could be used to commit ITIN fraud. For example, in August 2015, an ITIN unit employee was sentenced to more than two years in prison for wrongfully obtaining identification information from ITIN applicants that was then used to file fraudulent tax returns. The employee used the identification documents and names of actual ITIN applicants to obtain fraudulent ITINs. As such, the IRS needs to take appropriate steps to ensure that sensitive original identification documents are properly controlled.

### **Original documents are not controlled when an ITIN application is first received**

To obtain an ITIN, an applicant completes a Form W-7 and sends it to the Austin Submission Processing Center. Supporting documents are required to accompany the ITIN application to



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prove the applicant's identity and foreign status. The documents must show the applicant's name and support for the claim of foreign status. For individuals who are 18 or older and not students, at least one document must show the applicant's photograph. These documents include passports, birth certificates, and national identification cards.

ITIN clerks are the first individuals to receive an ITIN application that includes original supporting documents. The ITIN clerks are responsible for opening the correspondence containing the applications and batching them together by type. Once opened and batched, the applications and original supporting documents are put on carts to be assigned to a tax examiner for processing. The various original supporting documents are not tracked at this stage even though the application package has been opened, thus increasing the potential that these documents will become separated from the application. No recordation or tracking of the original documents is performed until the application is processed, at which time a tax examiner enters the document type and identification number into the RTS. We notified IRS management of our concerns with the controls over original documents on February 14, 2020. As of March 6, 2020, IRS management had not responded to our concerns.

### **Resources are expended to research loose original documents that are no longer associated with the corresponding application**

Original documents or certified copies of documents that are returned to the IRS as undeliverable and documents that are no longer associated with a corresponding Form W-7 application are routed to a designated ITIN team. From October 1, 2018, to October 1, 2019, the IRS received 3,344 loose documents that could not be associated with a corresponding Form W-7 application. The ITIN team researches the RTS and IRS records to locate a better address to return the document. If a better address cannot be found, the document is recorded in the Loose Documents Database and stored in a filing cabinet that is kept unlocked during the day and only secured in the evening.

Thirty days after the ITIN team's initial review, the ITIN team will research the RTS again. If a better address is found for the document, the ITIN team will update the Loose Documents Database and return the document to the applicant. If a better address is not found after 30 days, the document is placed back in the filing cabinet. After six months, the ITIN team will make one last attempt to locate an address to return the document. If there is still no address available, the IRS will return original passports to the embassy of the issuing country. Other documents, such as marriage certificates, residency letters, and birth certificates, are destroyed. Since October 1, 2018, the IRS has destroyed 14,903 documents, of which, 1,726 were certified copies of a passport.

Applicants who do not receive their supporting documents can contact the IRS using a toll-free telephone number dedicated for ITIN issues. However, in some instances, the IRS may have already destroyed the requested documents before the applicant contacts the IRS. Given the types of documents in question, such as birth certificates, it is reasonable that an individual would not notice for some time that he or she has not received the documents back from the IRS. For example, an individual may use his or her birth certificate only when needed in specific circumstances (such as requesting a driver's license) and therefore would not realize until then that it had not been returned by the IRS. Between October 1, 2018, and October 29, 2019, the IRS received 694 document requests from ITIN applicants for which the requested documents had already been destroyed.



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The Commissioner, Wage and Investment Division, should:

**Recommendation 13:** Develop processes and procedures to log, track, and safeguard original documents and certified copies of documents from IRS receipt until returned to the applicant.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that documents are maintained with the application in a secure Government space, with access restricted to only IRS employees, from the time of receipt until they are returned to the applicant.

**Office of Audit Comment:** Although IRS management states that documents are maintained with the application, this is not always the case. We found that, over a one-year period, the IRS received 3,344 documents that it could not associate with a Form W-7 application.

**Recommendation 14:** Extend the six-month storage period before loose original documents are destroyed or returned to the issuing country's embassy to allow applicants more time to request their documents.

**Management's Response:** The IRS disagreed with this recommendation. IRS management explained that loose or undeliverable documents were previously held in storage up to one year. However, the longer period did not improve the rate at which undeliverable documents were returned to owners. The extension of the document maintenance period did not prompt applicants to inquire or request documents. The IRS currently advises all applicants in external facing ITIN-related products to inquire about their submitted documents if they have not been returned within 60 days of a submitted Form W-7.

**Office of Audit Comment:** IRS management did not provide documentation detailing their analysis that showed extending the hold period to one year provided no improvement in the number of undeliverable documents destroyed or returned to the issuing country's embassy. We will continue to monitor the IRS's service to applicants whose documents have not been returned to them.

## Some Individual Taxpayer Identification Numbers Are Still Not Deactivated As Required or Are Being Erroneously Deactivated

The PATH Act requires all ITINs issued prior to January 1, 2013, to be deactivated as of January 1, 2020. However, in July 2016, the IRS informed Congress that it needed to revise the deactivation schedule, citing concerns with its ability to timely process renewal applications. In January 2018, we reported that the IRS's concern with its ability to timely process renewal ITIN applications was unfounded and recommended that the IRS modify its deactivation schedule to improve its timeliness in complying with the requirements of the PATH Act. The IRS agreed and, in February 2018, developed a revised deactivation schedule that will now result in the deactivation of all required ITINs by January 1, 2021.

### **The IRS is still not deactivating some ITINs as required**

In January 2018, we reported that, due to computer programming errors and the inaccurate identification of ITINs used on a tax return, the IRS did not deactivate 89,105 ITINs as required.



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We recommended that the IRS revise the computer programming and deactivate the 89,105 ITINs we identified. IRS management agreed with our recommendations but noted that completing the computer programming changes needed was subject to competing Information Technology organization priorities. As of December 2019, the IRS had revoked 72,726 ITINs, deactivated 13,387 ITINs, found no actions needed on 1,063 ITINs, and renewed 1,836 ITINs. The remaining 93 ITINs had the wrong RTS status and were updated to the correct assigned status.

Although improvements have been made, current programming still does not ensure that all ITINs are deactivated as required. For example, our analysis of IRS data identified 509 ITINs that were required to be deactivated in December 2017 and December 2018 but were not. We notified the IRS of our concerns on January 30, 2020. IRS management stated that for 228 ITINs, necessary actions were not taken to manually deactivate these ITINs that were revoked prior to the implementation of the RTS. IRS management is continuing to research the remaining 281 ITINs that have a blank status in the RTS to determine why the computer programming is not identifying these ITINs for deactivation. If programming changes are not implemented, the IRS will continue to not deactivate certain ITINs that require deactivation.

### The IRS continues to erroneously deactivate some ITINs

In January 2018, we reported that the IRS erroneously deactivated 133,054 ITINs as of December 2016, of which 5,860 were used on a tax return as of February 16, 2017. These ITINs should not have been deactivated, and these errors occurred because the file the IRS used to identify ITINs for deactivation does not include ITINs that were:

- Used on paper-filed prior year returns, *i.e.*, the taxpayer filed a paper Tax Year 2014 return during the 2016 Filing Season.
- Subsequently updated to valid status during tax return processing.
- Used on tax returns that were initially unable to post to the Master File but were subsequently corrected.

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

Our review of ITINs deactivated as of May 8, 2019, identified 8,793 ITINs that were deactivated in error. As of February 13, 2020, 12,336 tax returns were filed using 7,003 of these ITINs. We notified IRS management of our concerns on January 30, 2020. IRS management reviewed a sample of 100 of the 8,793 ITINs and found that all of them met one or more of the conditions previously discussed that are not included in the files the IRS uses to identify ITINs for deactivation. IRS management found that 2,064 of the 8,793 ITINs subsequently expired on January 1, 2020, and as such, they will not be reactivated. IRS management indicated that they will review the remaining 6,729 ITINs to determine whether manual reactivation is appropriate.



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IRS management stated that the 8,793 ITINs we identified represent a low overall error rate based on the ITINs that were deactivated for nonuse. As such, they do not believe it would be prudent to implement complex programming to address these ITINs. IRS management stated that manual processes are in place to reactivate an ITIN when an erroneous deactivation is discovered. In addition, management is currently developing final requirements to proactively identify these ITINs.

The Commissioner, Wage and Investment Division, should:

**Recommendation 15:** Modify computer programming to ensure that all ITINs that have a blank status in the RTS are identified for deactivation.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that, when this issue was initially identified in Calendar Year 2017, the IRS's Information Technology specialists were unable to identify the cause or replicate the condition. IRS management stated that they are not pursuing further programming changes because the issue will be resolved at the end of this calendar year when the remaining ITINs issued prior to Calendar Year 2013 are scheduled for deactivation. For ITINs issued or renewed since 2013, deactivation will occur if the ITIN is not used on a tax return at least once in a consecutive three-year period. This process will not be dependent on the ITIN status recorded in the RTS.

**Office of Audit Comment:** Although the IRS disagreed with our recommendation to modify computer programming, it did agree to review the ITINs we identified and take appropriate action (see Management's Response to Recommendation 16). We will evaluate the IRS's deactivation of ITINs in future reviews to ensure that this condition is resolved with the deactivation of the remaining ITINs issued prior to Calendar Year 2013.

**Recommendation 16:** Review the 509 ITINs we identified that have not been deactivated as required and take the actions needed to revoke, deactivate, or renew them as appropriate.

**Management's Response:** The IRS agreed with this recommendation. The IRS plans to review the ITINs identified and take appropriate necessary actions.

**Recommendation 17:** Develop processes and procedures to identify ITINs that are used on paper-filed prior year returns, subsequently updated to a valid status during tax return processing, or used on a tax return that the IRS was initially unable to post to the Master File that was subsequently corrected and ensure that actions are taken to reactivate these ITINs.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that procedures are already in place to require these individuals to submit a renewal application in order to reactivate their ITIN.

**Office of Audit Comment:** Requiring individuals to submit an application to renew an ITIN that was erroneously deactivated by the IRS creates unnecessary taxpayer burden and results in additional work for the IRS. To reduce the burden on taxpayers, the IRS should establish processes to identify ITINs that were deactivated in error and proactively reactivate them when appropriate.



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**Recommendation 18:** Review the 6,729 ITINs we identified as deactivated in error and reactivate as appropriate.

**Management's Response:** The IRS agreed with this recommendation. IRS management reviewed the 6,729 ITINs identified and determined that they are scheduled for expiration on December 31, 2020. Therefore, any effort to reactivate these ITINs would soon be nullified and would provide little, if any, benefit to taxpayers.

**Recommendation 19:** Ensure that the taxpayers associated with the 7,003 ITINs that were erroneously deactivated and subsequently used on a tax return receive the benefits to which they are entitled.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that the 7,003 ITINs are a subset of the initial 8,793 that were noted as deactivated in error. Management reviewed the 8,793 ITINs and found that 2,064 ITINs subsequently expired on January 1, 2020. Management also determined that the remaining 6,729 ITINs were scheduled for deactivation on December 31, 2020, and therefore will not be reactivated.

**Office of Audit Comment:** While the IRS reviewed these ITINs, it took no action to ensure that the 7,003 individuals we identified received the tax benefits that the IRS may have incorrectly denied as a result of their ITIN being erroneously deactivated. As stated in IRS management's response, the earliest that the ITINs we identified should have been deactivated was January 1, 2020. However, the IRS deactivated these ITINs prior to May 9, 2019.

## Some Retroactive Tax Credit Claims Continue to Be Paid in Error or Are Incorrectly Denied

In February 2018, we reported<sup>12</sup> that the IRS incorrectly allowed almost \$9.8 million in refundable credits associated with 4,509 Tax Years 2013 to 2015 tax returns (these were retroactive claims) processed during the 2017 Filing Season. Each of these involved an erroneous refundable credit being paid to an individual whose TIN was not issued prior to the return due date.<sup>13</sup> According to IRS management, the credits were incorrectly allowed because some of the tax returns were processed before the TIN assignment date was available on the NAP, and IRS employees did not follow internal guidance for processing these claims. In March 2019, the IRS completed its review of the cases for which it incorrectly allowed the retroactive claims and adjusted these tax accounts by reducing the tax credits that were allowed by more than \$41 million.

### **Although the IRS adjusted the retroactive claims we identified during our prior review, new claims continue to be erroneously paid**

Our review of Tax Year 2016 and Tax Year 2017 returns claiming tax credits that were processed during the 2019 Filing Season identified 5,022 tax returns for which the IRS incorrectly paid

<sup>12</sup> 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).

<sup>13</sup> For the purpose of our analysis, these TINs include an SSN, ITIN, or Adoption Taxpayer Identification Number.



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more than \$6 million in retroactive claims for refundable and nonrefundable tax credits to individuals whose TIN was not issued prior to the return due date. Figure 3 shows the number of tax returns for which a retroactive tax credit claim was erroneously paid.

**Figure 3: Erroneous Retroactive Claims for Tax Credits**

Refundable Tax Credit	Number of Tax Returns	Credit Amount Paid
Earned Income Tax Credit	748	\$1,688,914
Child Tax Credit (nonrefundable)	1,671	\$1,270,662
Additional Child Tax Credit	2,498	\$2,964,514
American Opportunity Tax Credit	105	\$89,640
<b>Total</b>	<b>5,022</b>	<b>\$6,013,730</b>

Source: TIGTA review of tax returns processed as of May 23, 2019.

We shared our concerns with IRS management in January 2020. IRS management stated that the claims we identified were the result of IRS employee error when verifying that the TIN was issued prior to the return due date.

### Some retroactive claims were erroneously disallowed

In February 2018, we reported that the IRS incorrectly disallowed refundable credits totaling \$489,423 claimed on 289 tax returns. For each of these claims, the taxpayer's TIN was issued prior to the return due date and he or she was entitled to the refundable credits claimed. According to IRS management, these errors occurred because IRS employees did not follow procedures to verify the TIN issuance date before allowing the credits. IRS management reviewed and adjusted 215 of the 289 tax returns we identified. For the remaining 74 tax returns, IRS management found that the taxpayer had already been allowed the credit or an additional adjustment to the credit was not warranted.

However, our review of Tax Years 2016 and 2017 tax returns processed during Processing Year 2019 identified 371 tax returns with refundable and nonrefundable credit claims totaling \$404,806 that were incorrectly disallowed when the taxpayer's TIN was timely issued. We shared our concerns with IRS management in January 2020. IRS management stated that these claims were incorrectly disallowed due to IRS employee error when verifying the issuance date of the TIN. However, IRS management noted that the tax returns in question are for Tax Years 2016 and 2017, for which the assessment statute is either expired or will expire before the erroneous credits can be recovered.

The Commissioner, Wage and Investment Division, should:

**Recommendation 20:** Develop processes and procedures to identify retroactive claims erroneously paid and erroneously disallowed due to tax examiner errors. Once these claims are identified, take steps to recover erroneous credit payments or ensure that taxpayers receive the benefits to which they are entitled.

**Management's Response:** The IRS agreed with this recommendation and plans to determine the feasibility of creating a systemic process to identify returns for which tax



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examiner errors cause the IRS to erroneously deny or allow claims to which the taxpayers are or are not entitled. Any identified solution will require programming resources, which are limited and subject to competing programming priorities.

**Recommendation 21:** Review the 371 tax returns we identified for which the IRS incorrectly denied retroactive credit claims and take the steps needed to ensure that these taxpayers receive the benefits to which they are entitled.

**Management’s Response:** The IRS agreed with this recommendation. The IRS plans to review the 371 identified tax returns and ensure that the affected accounts are appropriately corrected.

### Certifying Acceptance Agents Continue to Authenticate the Identity and Foreign Status of Individual Taxpayer Identification Number Applicants Despite Significant Noncompliance

The IRS’s annual CAA compliance reviews continue to find that a high percentage of CAAs are not compliant with program requirements. The IRS reviewed 1,319 CAAs during Fiscal Years 2016 through 2019 and terminated 515 (39 percent) for significant noncompliance with program guidelines as a result of these reviews. Examples of reasons for which the IRS removes CAAs included \*\*\*\*\*2\*\*\*\*\*. However, despite the high level of noncompliance, the IRS continues to allow CAAs to authenticate applicants’ identity and foreign status.

We continue to believe that the processing and verification of ITIN applications should only be performed by IRS employees. The PATH Act authorizes the IRS to use approved community-based CAAs when issuing ITINs. The CAAs provide a valuable service to assist individuals with the ITIN application process, in particular the preparation of the form and the gathering of the required supporting documentation. However, the PATH Act does not specify the authority to be given to a CAA or authorize a CAA to accept required documentation on behalf of the IRS. The IRS’s continued expansion of the use of community-based partners to assist individuals applying for an ITIN is a positive step. However, there are significant risks associated with the IRS allowing the CAAs to verify an applicant’s identity and foreign status. An ITIN allows individuals to obtain Federal tax benefits and, although not permitted, is often used as a Federal identification number for other purposes.

### **Annual compliance reviews show significant CAA noncompliance**

The IRS conducts annual compliance reviews of its CAAs through both physical visits and correspondence reviews. The IRS selects the CAAs for a compliance review by analyzing the volume of ITIN applications submitted by the CAAs and the rejection rate of those ITIN applications. The CAAs with the highest volumes and highest rejection rates are considered high-risk and are selected to be part of the annual review. IRS internal guidelines also note that the CAAs that were placed on probation from the previous annual review are to be selected for a subsequent review.

The percentage of CAAs found to be noncompliant with program requirements grew from 86 percent in Fiscal Year 2016 to 97 percent in Fiscal Year 2019. In addition, the number of





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bring them into compliance with IRS requirements. IRS management indicated that they do not allow CAAs that were terminated on the basis of confirmed fraud or criminal conduct to reapply to participate in the program. When we asked IRS management if they believed the one-year termination period was a sufficient deterrent to encourage compliance, they stated that they have seen a reduction in compliance review terminations in the last three years, which is an indication of CAA behavior change with respect to adherence to program guidelines. Although there have been fewer terminations over the last three years, the IRS also reviewed fewer CAAs as part of its annual compliance reviews. As shown in Figure 4, the number of the CAAs reviewed annually dropped from 392 CAAs in Fiscal Year 2016 to 250 CAAs in Fiscal Year 2019, and the percentage of the CAAs terminated grew from 24 percent in Fiscal Year 2016 to 47 percent in Fiscal Year 2018.

### CAAs can no longer certify foreign military identification cards

In February 2018, we reported that processes do not ensure that CAA forensic training adequately covers the review of document security features when authenticating an applicant's proof of identity. We recommended that the IRS ensure that CAA-completed forensic training includes instructions on how to verify the security features on all original documents, such as foreign military identification cards. The IRS agreed to this recommendation. In March 2018, the IRS issued a solicitation for new vendors but did not receive any qualified responses. The IRS subsequently attempted an industry call with vendors but did not receive enough interest to move forward with another formal solicitation. In January 2020, the IRS announced that the CAA program had been modified to no longer allow the CAAs to review and certify foreign military cards. Applicants can continue to use the documents to obtain ITINs if they present them directly to the IRS by mail or in person at a TAC.

The Commissioner, Wage and Investment Division, should:

**Recommendation 22:** Discontinue allowing the CAAs to authenticate an applicant's \*\*\*\*2\*\*\*\* \*\*\*\*\*2\*\*\*\*\* status. Limit CAAs' involvement to assisting individuals in gathering applicable documents and completing the ITIN applications.

**Management's Response:** The IRS disagreed with this recommendation. IRS management believes this action may be contradictory to the PATH Act, which encourages the geographic expansion of community-based CAAs to facilitate the Form W-7 application process.

**Office of Audit Comment:** As stated in our report, the PATH Act does not specify the authority to be given to a CAA or authorize a CAA to accept required documentation on behalf of the IRS. As such, we maintain that the processing and verification of ITIN applications should only be performed by the IRS.

**Recommendation 23:** Ensure that follow-up reviews are conducted, as required, if the IRS continues to allow the CAAs to authenticate an applicant's identity and foreign status.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that they have existing processes to ensure that follow-up reviews are conducted. Follow-up reviews are an integral part of the CAA compliance review process and are conducted on the CAAs who receive a compliance review finding of probation. During the probationary period, which is one year, the CAAs are required to



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take corrective actions to address issues from the initial compliance review. A follow-up review is conducted to ensure that the measures taken are effective and that the CAAs are adhering to program guidelines.

**Office of Audit Comment:** As stated in our report, current IRS processes are not being followed. We identified 67 CAAs with a probation status in Fiscal Year 2016 that did not have a follow-up review as required.

**Recommendation 24:** If the IRS continues to allow the CAAs to authenticate an applicant's \*\*\*\*\*2\*\*\*\*\*, change the program requirements to prohibit or put further conditions on reentry into the program for the CAAs that were terminated due to significant noncompliance.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that the CAAs who receive a compliance review finding of termination are suspended from program participation for a period of one year from the date of notification. However, the participants are allowed to reapply to the program after their suspension period and should take corrective actions to prevent a repeat of prior sanctions should they do so. If approved, existing measures will identify them for a subsequent compliance review if they are not compliant with program guidelines. The IRS prohibits reentry into the program if the CAA is found to have engaged in fraudulent behavior.

**Office of Audit Comment:** IRS processes do not ensure that terminated CAAs have addressed their noncompliance before they are readmitted to the CAA program as IRS management implies. These CAAs are also not subjected to a higher level of scrutiny upon reentering the CAA program to ensure that they are now compliant. As our report states, a CAA can be terminated for \*\*\*\*\*2\*\*\*\*\*  
\*\*\*\*\*2\*\*\*\*\*  
\*\*\*\*\*2\*\*\*\*\*. If not corrected, these infractions can result in the issuance of ITINs to ineligible individuals as the IRS relies on the CAA's determination of the Form W-7 applications.



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# Appendix I

## Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the IRS has established effective processes to ensure that only individuals with a tax need are assigned an ITIN. To accomplish our objective, we:

- Analyzed IRS tax return and ITIN data to determine whether the IRS implemented the PATH Act requirements to conduct an ITIN study, ensure that treaty ITINs are used only for such purpose, deactivate ITINs, and prevent refundable tax credit claims to individuals who do not have a timely issued ITIN.
- Determined whether current processes ensure the security, integrity, and sufficiency of RTS data by evaluating procedures for capturing application information in the RTS and limiting access to only those individuals with a need.
- Analyzed RTS data to determine whether the information in the RTS is accurate and ITINs are issued only to individuals entitled to receive them.
- Analyzed IRS tax return and ITIN data to determine whether the IRS has adequate controls to prevent the use of revoked ITINs and ITINs assigned to deceased individuals to file a tax return.
- Evaluated the IRS's oversight of the CAA compliance program and reviewed the results of the annual compliance reviews to assess CAAs' compliance with program requirements.

### Performance of This Review

This review was performed at the IRS Wage and Investment Division's ITIN function in Austin, Texas, and with information obtained from the ITIN Policy Section in Atlanta, Georgia, during the period February 2019 through January 2020. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Major contributors to the report were Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services); Deann L. Baiza, Director; Diana Tengesdal, Director; Ngan B. Tang, Audit Manager; Heidi C. Turbyfill, Lead Auditor; Robert J. Howes, Senior Auditor; Jaclynne O. Durrant, Auditor; and Christopher W. Harding, Auditor.

### Validity and Reliability of Data From Computer-Based Systems

During this review, we relied on the RTS data that reside in the TIGTA Data Center Warehouse that contains all Form W-7 applications and the RTS extract provided by the IRS of all CAA data present on the RTS. We also relied on the NAP, IMF entity data, and the Individual Return Transaction File on the TIGTA Data Center Warehouse to verify ITIN status. Before relying on



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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 and the RTS. Based on the results of our testing, we believe the data used in our review are 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: controls to ensure that the RTS correctly issues ITINs when applications and documents were approved by tax examiners, controls to prevent ITINs from being active on the NAP when Forms W-7 are rejected, controls to prevent revoked ITINs from being active on the NAP and valid on the IMF, controls to prevent individuals from obtaining multiple ITINs, and controls to ensure that CAAs comply with program requirements. We evaluated these controls by interviewing IRS management and performing analyses of data in the RTS, IMF, NAP, and Individual Tax Return Transaction File located on the TIGTA Data Center Warehouse.



## Appendix II

### Outcome Measures

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

#### **Type and Value of Outcome Measure:**

- Reliability of Information – Potential; 562 ITINs issued to individuals who used the \*\*2\*\* \*\*\*\*\*2\*\*\*\*\* to apply for an ITIN (see Recommendations 3 and 6).

#### **Methodology Used to Measure the Reported Benefit:**

We obtained a data extract from the IRS’s ITIN RTS from April 2017 to May 2019 and identified ITINs that were listed as active and assigned in the RTS. Using RTS data, we identified individuals who used the \*\*\*\*\*2\*\*\*\*\* to apply for an ITIN. We identified 562 ITINs issued to individuals who used the same \*\*\*\*2\*\*\*\* information and obtained an ITIN.

#### **Type and Value of Outcome Measure:**

- Reliability of Information – Potential; 683,839 ITIN applications submitted \*\*\*\*\*2\*\*\*\*\* \*\*\*\*2\*\*\*\* for which key supporting documentation was not entered into the RTS (see Recommendation 4).

#### **Methodology Used to Measure the Reported Benefit:**

We obtained a data extract from the IRS’s ITIN RTS and identified ITIN applications submitted \*\*\*\*\*2\*\*\*\*\* from April 2017 to May 2019. We identified the documents registered in the RTS Support Document Table and identified all the applications that were missing information \*\*\*\*\*2\*\*\*\*\* fields. We identified 466,261 ITIN applications submitted \*\*\*\*\*2\*\*\*\*\* in the RTS data. In addition, we identified 217,578 ITIN applications submitted \*\*\*\*\*2\*\*\*\*\* \*\*\*\*\*2\*\*\*\*\* in the RTS Support Document Table. In total, we identified 683,839 ITIN applications that were \*\*\*\*\*2\*\*\*\*\* for which key supporting documentation was not entered into the RTS.

#### **Type and Value of Outcome Measure:**

- Reliability of Information – Potential; 2,239 ITINs issued to individuals who used the same supporting documents (e.g., driver’s license, passport number) to apply for an ITIN (see Recommendations 5 and 6).



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### Methodology Used to Measure the Reported Benefit:

We obtained a data extract from the IRS’s ITIN RTS from April 2017 to May 2019 and identified ITINs that were listed as assigned on the RTS. We identified that individuals are using the same supporting documents to apply for an ITIN. We limited our analysis to the following supporting documents: \*\*\*\*\*2\*\*\*\*\* identified 2,239 ITINs in the RTS assigned to individuals who used the same supporting documents.

### Type and Value of Outcome Measure:

- Reliability of Information – Potential; 140 issued ITINs that are active even though the RTS indicated that the ITIN application was revoked or that the individual was deceased (see Recommendation 8).

### Methodology Used to Measure the Reported Benefit:

We obtained an extract from the IRS’s ITIN RTS and identified ITIN applications that indicate the application was revoked or that the individual was deceased, but the ITIN was issued. We matched these ITINs to the NAP and identified 140 ITINs that were issued and active on the NAP.

### Type and Value of Outcome Measure:

- Reliability of Information – Potential; 613 active ITINs issued for 2,227 ITIN applications that used two common addresses that the SRT identified as part of a pattern of applications with potentially fraudulent supporting documents (see Recommendations 9 through 12).

### Methodology Used to Measure the Reported Benefit:

We obtained a data extract from the IRS’s ITIN RTS from March 2002 to April 2019 and identified ITIN applications that used two common addresses that the SRT identified as part of a pattern of applications with potentially fraudulent supporting documents. We identified 2,227 applications for which 1,244 ITINs were assigned. We matched these ITINs to NAP data and identified 613 ITINs that are still active and can be used on a tax return.

### Type and Value of Outcome Measure:

- Taxpayer Privacy and Security – Potential; 3,344 loose original or certified supporting documents that are stored and cannot be associated with an ITIN application (see Recommendations 13 and 14).

### Methodology Used to Measure the Reported Benefit:

We requested and received the Missing Document Request inventory report for Fiscal Year 2019. We obtained the volume of loose documents that were received and stored in the Loose Documents Database.



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### Type and Value of Outcome Measure:

- Revenue Protection – Potential; 509 ITINs that were required to be deactivated in December 2017 and December 2018 but were not (see Recommendation 16).

### Methodology Used to Measure the Reported Benefit:

We first identified a list of ITINs that should have been deactivated based on their middle digits. We matched this list to the RTS data to determine the ITINs' status as of May 2019 and identified 167 ITINs that should have been deactivated in December 2017 and 342 ITINs that should have been deactivated in December 2018 based on their middle digits but were not.

### Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 7,003 ITINs that were inappropriately deactivated by the IRS and were used to file a tax return (see Recommendation 19).

### Methodology Used to Measure the Reported Benefit:

Our review of ITINs deactivated as of May 2019 identified 8,793 ITINs that should not have been deactivated by the IRS but were deactivated. We queried the Individual Return Transaction File for tax returns processed as of February 13, 2020, and determined that 7,003 ITINs were used on 12,336 tax returns.

### Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; \$4,743,068 in erroneous refundable tax credits paid to taxpayers for 3,351 Tax Years 2016 and 2017 tax returns with a TIN that was not timely issued (see Recommendation 20).

### Methodology Used to Measure the Reported Benefit:

We identified 608,008 Tax Years 2016 and 2017 tax returns that claimed a tax credit (Additional Child Tax Credit, Child Tax Credit, American Opportunity Tax Credit, and Earned Income Tax Credit) and reviewed the TINs used as the primary taxpayer, secondary taxpayer, or dependents to claim the tax credit by analyzing the Individual Return Transaction File. We analyzed the issuance dates to determine if the TINs used to claim the tax credits were issued by the due date of the returns. If the primary or secondary taxpayer TIN are not issued by the due date of the return, no tax credit should be paid on the tax return.

For those returns on which the dependent TIN was not issued by the due date of the return, we computed the amount of the refundable credit associated with that dependent. We determined that 748 returns received \$1,688,914 in Earned Income Tax Credits using TINs that were not issued by the due date of the Tax Years 2016 and 2017 tax returns. We determined that 2,498 returns received \$2,964,514 in Additional Child Tax Credits using TINs that were not issued by the due date of the Tax Years 2016 and 2017 tax returns. We determined that 105 returns received \$89,640 in American Opportunity Tax Credits using TINs that were not issued by the due date of the Tax Years 2016 and 2017 tax returns.

Total refundable tax credits:  $\$1,688,914 + \$2,964,514 + \$89,640 = \$4,743,068$

Total tax returns:  $748 + 2,498 + 105 = 3,351$



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### **Type and Value of Outcome Measure:**

- Revenue Protection – Potential \$1,270,662 claimed by taxpayers on 1,671 returns without a timely issued TIN whose Child Tax Credit was incorrectly allowed on their Tax Years 2016 and 2017 tax returns (see Recommendation 20).

### **Methodology Used to Measure the Reported Benefit:**

We identified 608,008 Tax Years 2016 and 2017 tax returns that claimed a tax credit (Additional Child Tax Credit, Child Tax Credit, American Opportunity Tax Credit, and Earned Income Tax Credit) and analyzed the TINs used as the primary taxpayer, secondary taxpayer, or dependents to claim the tax credit by analyzing the Individual Return Transaction File. We analyzed the issuance dates to determine if the TINs used to claim the tax credits were issued by the due date of the returns. If the primary or secondary taxpayer TIN are not issued by the due date of the return, no tax credit should be paid on the tax return.

For those returns on which the dependent TIN was not issued by the due date of the return, we computed the amount of the tax credit associated with that dependent. We determined that 1,671 returns received \$1,270,662 in Child Tax Credits using TINs that were not issued by the due date of the Tax Years 2016 and 2017 tax returns.

### **Type and Value of Outcome Measure:**

- Taxpayer Rights and Entitlements – Potential; 371 returns of taxpayers who were incorrectly disallowed \$404,806 in tax credits on their Tax Years 2016 and 2017 tax returns (see Recommendations 20 and 21).

### **Methodology Used to Measure the Reported Benefit:**

We identified returns claiming the Additional Child Tax Credit, Child Tax Credit, American Opportunity Tax Credit, and Earned Income Tax Credit for Tax Years 2016 and 2017 and determined the TINs used as the primary taxpayer, secondary taxpayer, or dependents to claim a credit by analyzing the IRS's Individual Return Transaction File. We analyzed the issuance dates to determine if the TINs used as the primary taxpayer, secondary taxpayer, or dependents to claim a tax credit were issued by the due date of the return.

If all TINs were issued by the due date of the return, the tax credit(s) should not have been disallowed based on the TIN's issuance date. We determined that 371 returns were incorrectly disallowed \$404,806 in tax credits, and the IRS sent an incorrect notice based on a TIN issuance date.



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**Appendix III**

**Prior Treasury Inspector General for Tax Administration  
Recommendations Related to the Issuance of  
Individual Taxpayer Identification Numbers**

<b>Audit</b>	<b>Recommendation</b>	<b>Corrective Action</b>
<p><b>Reference No. 2012-42-081</b></p> <p><b>Substantial Changes Are Needed to the Individual Taxpayer Identification Number Program to Detect Fraudulent Applications</b></p> <p><b>Issue Date: July 2012</b></p>	<p>Develop more detailed procedures and deliver adequate training on reviewing documentation supporting ITIN applications to identify questionable documents.</p>	<p>IRS management agreed with this recommendation. The IRS revised internal guidelines to provide more detailed procedures and coordinated with the Department of Homeland Security to provide a forensic train the trainer course to a cadre of ITIN employees.</p>
	<p>Expand the quality review process to include adequate emphasis on whether employees are accurately identifying fraudulent documents.</p>	<p>IRS management agreed with this recommendation. Internal guidelines were modified to clarify the quality review process.</p>
	<p>Revise the criteria for identifying questionable applications to include the significance of an error.</p>	<p>IRS management agreed with this recommendation. Internal guidelines were revised on instructing tax examiners to flag the application for secondary review if any flagrant discrepancy is identified.</p>
	<p>Establish a process to evaluate questionable applications to identify trends and schemes for referral.</p>	<p>IRS management agreed with this recommendation. The process used to identify potential schemes was reviewed and, with respect to the implementation of changes to the program currently under consideration, revised appropriately.</p>



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Audit	Recommendation	Corrective Action
	<p>Develop business processes and procedures that include evaluating and analyzing information included in the RTS to identify indicators of questionable ITIN applications.</p>	<p>IRS management agreed with this recommendation. The IRS has arranged for the Modernization and Information Technology Services organization to provide regular data extracts of the RTS. Processes were developed to analyze the data and identify indicators of questionable ITIN applications.</p>
	<p>Establish organizational lines of responsibility, processes, and procedures for detecting, referring, and working potential ITIN application fraud schemes.</p>	<p>IRS management agreed with this recommendation. In addition to the IRS's traditional process for making criminal referrals to Criminal Investigation, the IRS will evaluate processes that will be used to address ITIN and related refund fraud schemes through civil enforcement programs.</p>
	<p>Require only original documents or documents certified by the issuing agency to be provided in support of an ITIN application.</p>	<p>IRS management agreed with this recommendation. The IRS implemented interim guidelines to require original documents or documents certified by the issuing agency to be provided in support of an ITIN application. With certain limited exceptions, these interim guidelines are being put in place while the IRS conducts a more thorough review.</p>
	<p>Discontinue the CAA designation and require that all documentation in support of an ITIN application be sent to the IRS for review and verification.</p>	<p>IRS management disagreed with this recommendation.</p>



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Audit	Recommendation	Corrective Action
	Develop a process to identify and deactivate ITINs assigned to individuals who no longer have a tax filing requirement.	IRS management will consider this recommendation as the IRS evaluates the feasibility and impact of this change on the taxpayers and the IRS. The planned corrective action was superseded by the PATH Act.
<p><b>Reference No: 2013-40-052</b></p> <p><b>Review and Verification of Individual Taxpayer Identification Number Applications Has Improved; However, Additional Processes and Procedures Are Still Needed</b></p> <p><b>Issue Date: May 2013</b></p>	<p>Ensure that programming is developed to flag ITIN applications that contain characteristics of previously identified questionable ITIN applications when input into the RTS.</p>	<p>IRS management agreed with this recommendation. The IRS will prepare a risk assessment that, in addition to determining the scope and costs of programming, will address other mitigating controls that can be implemented in the event the requested programming changes are not funded.</p>
	<p>Ensure that the quality review process continues to emphasize the importance of tax examiners' identification of questionable documents and that weekly team meetings are held with tax examiners to discuss ITIN application processing trends, patterns, and concerns.</p>	<p>IRS management agreed with this recommendation. The ITIN Operations Department has incorporated this practice and will ensure that the team meetings continue to be held, at which tax examiners may discuss ITIN application processing trends, patterns, and concerns.</p>
<p><b>Reference No. 2015-40-038</b></p> <p><b>Tax Examiners Do Not Have the Tools or Expertise to Authenticate Documents Certified by a Foreign Issuing Agency</b></p> <p><b>Issue Date: May 2015</b></p>	<p>Provide tax examiners with reference materials that **2** *****2***** *****2***** various countries that can be used to verify the authenticity of copies of documents certified by a foreign issuing agency.</p>	<p>The IRS agreed with this recommendation, but the IRS's ability to use ***2*** is limited by treaty obligations. The IRS noted that it will explore *****2***** *****2***** for training purposes. It will also continue its discussions with the U.S. Department of State as it evaluates policy and procedures pertaining to the receipt and acceptance of certified copies of foreign-issued identification documents.</p>



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Audit	Recommendation	Corrective Action
	<p>Develop detailed procedures and deliver adequate training on verifying the authenticity of copies of documents certified by a foreign issuing agency.</p>	<p>IRS management agreed with this recommendation. The IRS believes that existing procedures adequately address the correct procedures for verifying the authenticity of copies of documents certified by foreign issuing agencies. However, it will use its ongoing communication and dialogue processes to reinforce proper procedures. Additionally, internal guidelines were updated to clarify instructions for verifying certified copies of documents.</p>
<p><b>Reference No. 2018-40-011</b></p> <p><b>Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met</b></p> <p><b>Issue Date: January 2018</b></p>	<p>Modify the deactivation schedule to improve timeliness in complying with the requirements of the PATH Act.</p>	<p>The IRS agreed with this recommendation. The projections on which its original deactivation schedule is based are being updated with actual renewal volume data, and the deactivation schedule will be updated to reflect a revised timeline commensurate with the schedule established by the PATH Act.</p>
	<p>Revise computer programming to deactivate ITINs when the Form W-7 was rejected and the ITIN status field in the ITIN RTS is blank.</p>	<p>The IRS agreed with this recommendation and will request the requisite programming changes to prevent ITINs from being omitted for deactivation based on the RTS ITIN status. Because Information Technology resources are limited and are subject to budgetary constraints and competing priorities, the IRS could not provide an implementation date.</p>



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Audit	Recommendation	Corrective Action
	<p>Revise the methodology used to identify ITINs for deactivation to include all ITINs used on prior tax year paper-filed tax returns and all ITINs that are corrected during IRS processing to ensure that ITINs are not erroneously deactivated.</p>	<p>The IRS disagreed that a revision to its methodology for identifying ITINs for deactivation is necessary to address the finding associated with this recommendation.</p>
	<p>Review and update existing policies to ensure that tax returns filed with inactive ITINs are accurately processed by employees in the IRS's Error Resolution System.</p>	<p>The IRS agreed with this recommendation and updated procedures to clarify for tax examiners the procedures to be performed within the Error Resolution System when an inactive ITIN is present on a tax return.</p>
	<p>Reinstate computer programming to reject electronically filed tax returns filed with inactive ITINs.</p>	<p>The IRS disagreed with this recommendation. The use of a deactivated ITIN on a tax return does not render the return unprocessable. The Error Resolution System detects deactivated ITINs on both paper and electronic returns and directs them to the appropriate treatment process, which can include the disallowance of tax credits or other benefits that require notification to the taxpayer.</p>
	<p>Correct computer programming to ensure that the status field of all active ITIN accounts on the IRS Master File is updated when the ITIN is deactivated, including those in which the name of the individual who obtained the ITIN does not match the name on the tax account.</p>	<p>The IRS agreed with this recommendation. Corrected programming was implemented on the IMF on March 9, 2017.</p>



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Audit	Recommendation	Corrective Action
	<p>Ensure that the IRS Master File accounts associated with the remaining 2,808 ITINs with an active IRS Master File Account are updated to reflect the inactive status of the ITIN.</p>	<p>The IRS agreed with this recommendation. The affected accounts will be reviewed and actions will be taken to update the ITIN status and reconcile the differences between the IMF and the RTS.</p>
<p><b>Reference No. 2018-40-010</b></p> <p><b>Processes Need to Be Improved to Identify Incomplete and Fraudulent Applications for Individual Taxpayer Identification Numbers</b></p> <p><b>Issue Date: January 2018</b></p>	<p>Implement processes to ensure that ITINs issued solely for the purpose of claiming tax treaty benefits are used only for such purpose as required by the PATH Act.</p>	<p>The IRS disagreed with this recommendation. The IRS believes that its current processes fully comply with the requirements of the PATH Act.</p>
	<p>Ensure that tax examiners properly review ITIN applications to authenticate required supporting documentation.</p>	<p>The IRS agreed with this recommendation. A Quality Assurance Alert was issued to tax examiners on September 9, 2017, reminding them of the requirement for original or certified copies of documents provided in support of ITIN applications.</p>
	<p>Review the nine applications that TIGTA identified as being erroneously issued and correspond with the ITIN applicant to obtain required documentation supporting the issuance of the ITIN if warranted.</p>	<p>The IRS agreed with this recommendation. A thorough review was completed, and the IRS determined that <b>**1**</b> of the nine applicants' ITINs had been systemically deactivated for nonuse and no further actions are warranted. The <b>**1**</b> remaining applicants are in active status, and these applicants will have to renew their ITIN within the next year based on the PATH Act.</p>



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Audit	Recommendation	Corrective Action
	<p>Modify the RTS consistency and validity checks to identify all duplicate uses of supporting documents, including those for which the *****2***** *****2***** on the application do not match information in the RTS.</p>	<p>The IRS agreed with this recommendation. The IRS submitted a programming change request in August 2019. In the interim, tax examiners will input information into line 6d, and the ITIN Policy Section will conduct monthly analysis to identify duplicate use of supporting documents.</p>
	<p>Ensure programming changes are made to require mandatory review when the RTS alerts tax examiners that an applicant is using the **2** *****2***** *****2***** or duplicate supporting documents as has previously been used to obtain an ITIN.</p>	<p>The IRS agreed with this recommendation. However, the IRS stated that current RTS limitations do not allow programming changes that will systemically verify duplicate supporting documents being used.</p>
	<p>Establish systemic controls in the RTS to revoke ITINs determined to be issued in error after the three-day quality review period (<i>i.e.</i>, the system should not accept a reject action).</p>	<p>The IRS agreed with this recommendation. The IRS implemented systemic controls in the RTS in January 2020 to require ITINs determined to be issued in error after the three-day quality review period to be revoked.</p>
	<p>Modify processes to systemically remove all revoked ITINs from the NAP and update the IMF.</p>	<p>The IRS agreed to take appropriate actions based upon further research. The IRS concluded that programming changes were not needed after further research.</p>
	<p>Develop processes and procedures to identify deceased ITIN holders and lock their tax accounts if they exist.</p>	<p>The IRS agreed with this recommendation. The IRS submitted programming changes in February 2019 that identify deceased ITIN holders and submit date of death information to the Data Master File.</p>



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Are Issued to Only Qualifying Individuals With a Tax Administration Need**

Audit	Recommendation	Corrective Action
	<p>Develop processes and procedures to ensure that ITINs are not assigned for applications submitted by CAAs whose CAA Agreement has expired or been terminated.</p>	<p>The IRS agreed with this recommendation. The IRS updated agreements in January 2018 to prevent expired CAAs from submitting applications. The IRS also updated written guidance to require timely termination of CAA agreements in the RTS following agreement expiration.</p>

*Source: TIGTA audit reports and the Joint Audit Management Enterprise System.*



## Processes Do Not Ensure That Individual Taxpayer Identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

### Appendix IV

### Management's Response to the Draft Report



COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

August 10, 2020

MEMORANDUM FOR MICHAEL E. MCKENNEY  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin Kenneth C. Corbin  
2020.08.10 11:57:14 -0400  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Processes Do Not Ensure That Individual Taxpayer Identification Numbers Are Issued Only to Qualifying Individuals With a Tax Administration Need (Audit # 201940005)

Thank you for the opportunity to review and comment on the subject draft report. We appreciate the assistance and additional level of review provided by the Treasury Inspector General for Tax Administration (TIGTA) during this engagement. The Individual Taxpayer Identification Number (ITIN) Program was developed to assist individuals who are not eligible to receive a Social Security Number in complying with their U.S. tax obligations and to facilitate tax administration activities associated with these individuals. An ITIN is a unique nine-digit identification number that is assigned for tax administration purposes only. An ITIN is not valid for obtaining employment, credit, or for any other purpose beyond the realm of federal taxation.

Recognizing the potential for abuse of the program by individuals seeking tax benefits to which they are not entitled, with or without a fraudulent intent, we approach administration of the ITIN program very seriously. Program operations are subject to continuous review and modifications are made when control gaps or other areas of potential vulnerability are discovered. For example, prior to passage of the Protecting Americans from Tax Hikes Act of 2015,<sup>1</sup> we were already implementing processes for invalidating unused or dormant ITINs. With slight modifications to our original methodology and timetable, we adapted the process to conform with the requirements of the legislation. The deactivation process continues on an annual basis to identify those ITINs that are not used on a federal tax return at least once in a consecutive three-year lookback period. We appreciate your acknowledgement of our accomplishments in addressing potential weaknesses identified in previous reviews.

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



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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We disagree with the statement in the report that “management has reverted back to a reduced emphasis on identifying questionable ITIN applications.” To the contrary, our emphasis on identifying questionable ITIN applications has increased. In contrast to the observations reported by the TIGTA in 2012, Internal Revenue Manuals 3.21.263.6.3.4.4, *Reviewing Questionable Identification Documentation*, and 3.21.263.6.10.7, *Patterns and Trends Identification Desk*, empower our employees with the authority to suspend any application they believe to be potentially fraudulent and to refer the application for a secondary review when even one data element appears suspicious. These procedures have been in place since 2012.

We also took action to address the condition that led to reduced review times during the three-day period in which ITIN assignment notifications are systemically held. During this period, a quality review, a Personally Identifiable Information (PII) Review, and a Secondary Review Team (SRT) review are performed. The PII Review was implemented in 2018 to improve the rate at which original documents were returned to the ITIN applicants. The PII Review yielded the desired improvements; however, its placement before the SRT review had the unintended consequence of shortening the period in which the SRT could complete its work before the holding period elapsed. In January 2020, we changed the order of the review so that the SRT review happens before the PII review, giving the SRT sufficient time to determine if a potentially fraudulent application should be further suspended for up to 45 days while it is evaluated.

We implemented processes to review applications that the SRT identifies as having potentially fraudulent supporting documents, reject them, and revoke or deactivate previously assigned ITINs when warranted. Receipts of Form W-7, *Application for IRS Individual Taxpayer Identification Number*, decreased by 75 percent from 2,154,748 in calendar year 2011, when the audit reported in 2012 was performed, to 532,041 in 2019, yet staffing of the ITIN units has remained steady. That has had the effect of permitting ITIN Tax Examiners to process an average of only 3.4 applications per hour, as opposed to the 8.5 average applications per hour processed in 2011. This permits more time for a thorough review of the applications and clearly demonstrates the IRS’s primary focus is ensuring ITINs are issued only to qualifying individuals and not “on quickly issuing ITINs.” Processing ITIN applications is a labor-intensive process that relies heavily on the skills, expertise, and judgment of our employees, and they have been empowered to perform their duties in a way that ensures the integrity of the ITIN program.

We also have systemic programming and processes in place to aid in the identification of duplicate applications. Such identification is based on the \*\*\*\*\*2\*\*\*\*\* of the taxpayer. With respect to the identification of the duplicate use of documents on applications \*\*\*\*\*2\*\*\*\*\* , we have requested programming that will allow us to capture all key information from documents associated with those applications. In the



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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interim, we have implemented a manual process that relies on employees capturing this information in alternative fields in the ITIN Real-time System for subsequent evaluation and analysis. Programming that has been implemented since 2018 automated the process through which ITIN usage on returns is detected to identify those that should be deactivated for non-use. Other completed programming resulted in the acceleration of the deactivation schedule and improvements in how activation dates are recorded on IRS systems when there is a gap in an ITINs status due to renewal/reactivation after being deactivated.

The CAAs are an important intermediary in the ITIN application process. Many are credentialed tax professionals such as Certified Public Accountants, attorneys, Enrolled Agents, educational and financial institutions, and community-based organizations. Preservation of the IRS Acceptance Agent Program (AAP) is vital as CAAs facilitate the ITIN application process by ensuring applications are correctly submitted and proper documentation is presented to obtain an ITIN. Since 2013, CAAs have been required to complete forensic document training to ensure they have the necessary skills and knowledge to authenticate identification documents. Their ability to perform this task on behalf of ITIN clients is critical. Taxpayers may not have immediate access to IRS facilities and are reluctant to mail sensitive documents, such as passports, to comply with their U.S tax obligations. The referenced 515 CAAs that were terminated from the AAP during Fiscal Years 2016 through 2019 are a testament to our commitment to proper monitoring and oversight of the program. During that same period, we also saw positive change. For example, although there was an initial increase in terminations from fiscal years 2016 to 2017, the need for that action has decreased in each of the years after 2017. Additionally, we see correlations in the decrease in terminations and increase in minor compliance review sanctions of a warning. We are equally committed to providing those who remain in the program the information they need to ensure success. We accomplish this through our outreach efforts and assistance visits, as well as periodic communications on issues that impact the CAA community.

When a CAA is terminated from the Acceptance Agent Program, they are not eligible to reapply for at least one year from the date of notification. During this time, they should take corrective measures to address the sanctions identified if they plan to seek subsequent approval. Unless found to have engaged in fraudulent behavior, we do not prohibit CAAs from reapplying to the program. Generally, there is a low risk to the AAP by allowing re-entry following a sanction of termination. Our experience indicates only those practitioners who seriously undertake corrective actions to improve their programs reapply for reinstatement.



## **Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need**

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Attached are our comments and planned corrective actions to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Dietra Grant, Director, Customer Account Services, Wage and Investment Division, at (470) 639-3504.

Attachment



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

Attachment

### Recommendations

#### **RECOMMENDATION 1**

The Commissioner, Wage and Investment Division, should require all individuals who are renewing an ITIN to provide a tax return or other documentation to show they have a continued tax filing need for it.

#### **CORRECTIVE ACTION**

All Individual Taxpayer Identification Number (ITIN) applicants, including applicants renewing an ITIN, are required to identify their tax administration need or criteria under which they are applying for the number. This is accomplished by attaching a tax return or other documentation to support their reason for applying if they are claiming an exception to the tax return filing requirement. Additionally, with the enactment of the Tax Cuts and Jobs Act of 2017 and the suspension of personal exemptions for all taxpayers through 2025, spouses and dependents that still require an ITIN must be able to demonstrate a continued tax need. This tax need is often aligned with an allowable tax benefit such as the Other Dependent Credit, American Opportunity Tax Credit (AOTC), or qualifying parent for the Head of Household filing status. These individuals must attach a tax return as evidence that they are indeed claiming an allowable tax benefit in order to obtain an ITIN.

#### **IMPLEMENTATION DATE**

N/A

#### **RESPONSIBLE OFFICIAL**

N/A

#### **CORRECTIVE ACTION MONITORING PLAN**

N/A

#### **RECOMMENDATION 2**

The Commissioner, Wage and Investment Division, should implement processes to identify ITINs issued solely for the purpose of claiming tax treaty benefits that are not being used for such purpose. Once identified, the IRS should correspond with the ITIN holder to identify the purpose for which he or she continues to need an ITIN and update the RTS accordingly.

#### **CORRECTIVE ACTION**

Our position is that an ITIN issued for purposes of claiming tax treaty benefits is also valid for filing tax returns for which the individual may subsequently be liable. In most cases, the need for an ITIN requested to use tax treaty benefits arises from transactions in the current tax year that will require the filing of an income tax return after the year ends. As with ITINs requested at the time an initial tax return is filed, ITINs issued for



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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tax treaty benefit purposes must also be used at least once on a tax return within a consecutive three-year period. If not used, they are deactivated. We apply the same degree of rigorous scrutiny to applicants requesting an ITIN for treaty benefit purposes as we apply to all ITIN applicants.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 3**

Ensure employees are aware of the processes and procedures to review ITIN applications where the ITIN applicant has the \*\*\*\*\*2\*\*\*\*\*  
\*\*\*2\*\*\* as another ITIN holder and are taking appropriate actions as outlined in current procedures.

**CORRECTIVE ACTION**

All employees are required to adhere to guidelines in Internal Revenue Manual (IRM) 3.21.263, *IRS Individual Taxpayer Identification Number (ITIN) Real-Time System (RTS)*, with respect to ITIN-related processes and procedures, including those that relate to potential duplicate applications. This guidance is also reiterated in annual training for employees. Specifically, processes and procedures outlined in IRM 3.21.263.9.3.3, *W-7 Potential Duplicate Screen*, ensure employees identify applications containing the \*\*\*\*\*2\*\*\*\*\* as another ITIN holder and take appropriate actions to revoke or deactivate the ITINs when appropriate. Adherence to all guidelines is monitored through the Quality Review process and feedback is provided, where applicable.

**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

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



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 4**

Ensure compliance with interim processes to capture key information from supporting documents associated with \*\*\*\*\*2\*\*\*\*\* in the RTS and that the information captured in the RTS is used to identify questionable applications to be addressed.

### **CORRECTIVE ACTION**

We ensure compliance with interim processes to capture key information from supporting documents associated with applications submitted \*\*\*\*\*2\*\*\*\*\* \*\*\*\*\*2\*\*\*\*\* in the RTS. That information is used to identify and address questionable applications. On January 2, 2020, employees were provided detailed instructions in IRM 3.21.263.9.3.2.8, *Line 6d Identification Documents Entries*, to capture the required data.

### **IMPLEMENTATION DATE**

Implemented

### **RESPONSIBLE OFFICIAL**

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

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 5**

Ensure monthly analysis of ITIN RTS data is performed to identify Form W-7 applications submitted using duplicate supporting documents and take actions on the identified applications as appropriate.

### **CORRECTIVE ACTION**

As of March 16, 2020, we have completed monthly analyses of ITIN RTS data to identify duplicate use of supporting documents and have taken appropriate actions.

### **IMPLEMENTATION DATE**

Implemented

### **RESPONSIBLE OFFICIAL**

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



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 6**

Review the 562 ITINs with duplicate \*\*\*\*\*2\*\*\*\*\* and the 2,239 ITINs with duplicate supporting documents that TIGTA identified and take appropriate actions to revoke or deactivate the ITINs.

### **CORRECTIVE ACTION**

We will review the identified ITINs and take actions to revoke or deactivate them, as appropriate.

### **IMPLEMENTATION DATE**

March 15, 2021

### **RESPONSIBLE OFFICIAL**

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

### **CORRECTIVE ACTION MONITORING PLAN**

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

### **RECOMMENDATION 7**

Develop processes and procedures to identify active ITINs assigned to individuals whose ITIN was revoked or who are deceased and take appropriate actions to deactivate the ITIN or add a deceased lock on their tax account.

### **CORRECTIVE ACTION**

Existing procedures allow us to adequately identify this scenario and, when appropriate, actions are taken to deactivate or add a deceased lock on a tax account. Unless accounts are under the control of other functions within the IRS, revocations are processed immediately. When accounts are controlled by other functions, the revocation is delayed pending full resolution of the open issue. Systemic programming is in place to identify accounts of deceased ITIN holders when the IRS becomes aware of their death. Accounts of decedents are systemically locked in the year after the year of death and the ITIN is deactivated.

### **IMPLEMENTATION DATE**

Implemented

### **RESPONSIBLE OFFICIAL**

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



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 8**

Review the 89 ITINs identified as revoked and still active and the 51 ITINs assigned to deceased individuals that are not locked that TIGTA identified and take appropriate action to deactivate the ITINs or add a deceased lock on the tax account.

### **CORRECTIVE ACTION**

We will review the ITINs identified and take appropriate action to deactivate them or lock the decedents' accounts.

### **IMPLEMENTATION DATE**

January 15, 2021

### **RESPONSIBLE OFFICIAL**

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

### **CORRECTIVE ACTION MONITORING PLAN**

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

### **RECOMMENDATION 9**

Move the PII review after the SRT review to allow the SRT more time to review ITIN applications before ITINs are issued.

### **CORRECTIVE ACTION**

On January 15, 2020, the order in which the Personal Identifying Information review and the Secondary Review Team (SRT) review were reversed. This change allows the SRT employees more time to review ITIN applications before the ITINs are issued.

### **IMPLEMENTATION DATE**

Implemented

### **RESPONSIBLE OFFICIAL**

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

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 10**

Establish an additional suspense action in the RTS to allow the SRT to suspend certain types of applications if additional time is needed to complete their review of the



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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application. Until programming to establish the additional suspense action is implemented, the IRS should extend the three-day hold period in the RTS to allow the SRT time to complete its review to identify potentially fraudulent Form W-7 applications and ensure that actions are taken to prevent the issuance of the ITIN.

### **CORRECTIVE ACTION**

In general, we will not automatically extend the three-day quality review hold period in RTS; however, as an alternative interim measure, we updated procedural guidance for the SRT to refer ITIN applications assigned or renewed in error to management for review and deactivation.

### **IMPLEMENTATION DATE**

Implemented

### **RESPONSIBLE OFFICIAL**

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

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 11**

Review the 39 ITINs identified by the SRT and 613 active ITINs identified by TIGTA where the Form W-7 application used an address identified by the SRT as part of a pattern of Form W-7 applications with potentially fraudulent supporting documents to determine whether the ITINs need to be revoked or deactivated.

### **CORRECTIVE ACTION**

We will review the 39 ITINs identified by the SRT and 613 active ITINs identified by the Treasury Inspector General for Tax Administration (TIGTA) and take appropriate action.

### **IMPLEMENTATION DATE**

January 15, 2021

### **RESPONSIBLE OFFICIAL**

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

### **CORRECTIVE ACTION MONITORING PLAN**

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



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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### **RECOMMENDATION 12**

Develop processes and procedures to revoke or deactivate ITINs after issuance when the SRT determines the supporting documents submitted with the application are fraudulent.

### **CORRECTIVE ACTION**

We updated guidance in IRM 3.21.263.6.6.2, *Secondary Review Team*, on May 5, 2020, that allows for deactivation of ITINs after issuance, by a designated manager, when the SRT determines supporting documents submitted with the application are potentially fraudulent.

### **IMPLEMENTATION DATE**

Implemented

### **RESPONSIBLE OFFICIAL**

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

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 13**

Develop processes and procedures to log, track, and safeguard original documents and certified copies of documents from IRS receipt until returned to the applicant.

### **CORRECTIVE ACTION**

Documents are maintained with the application from the time of receipt until they are returned to the applicant in a secure government space with restricted access to only IRS employees.

### **IMPLEMENTATION DATE**

N/A

### **RESPONSIBLE OFFICIAL**

N/A

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 14**

Extend the six-month storage period before loose original documents are destroyed or returned to the issuing country's embassy to allow applicants more time to request their documents.



## Processes Do Not Ensure That Individual Taxpayer Identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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### **CORRECTIVE ACTION**

We previously held loose or undeliverable documents in storage up to one year; however, the longer holding period did not improve the rate at which undeliverable documents were returned to their owners. Extension of the document maintenance period did not prompt applicants to inquire or request documents. We currently advise all applicants in external facing ITIN related products to inquire about their submitted documents if they have not been returned within 60 days of a submitted Form W-7, *Application for IRS Individual Taxpayer Identification Number*.

### **IMPLEMENTATION DATE**

N/A

### **RESPONSIBLE OFFICIAL**

N/A

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 15**

Modify computer programming to ensure that all ITINs that have a blank status in the RTS are identified for deactivation.

### **CORRECTIVE ACTION**

This issue was initially identified in 2017 and, when a solution was pursued to correct the programming causing the condition, our Information Technology specialists were not able to identify the cause or replicate the condition. We are not pursuing further programming changes as the issue will be resolved at the end of this year, when the remaining ITINs issued prior to 2013 are scheduled for deactivation. For ITINs issued or renewed since 2013, deactivation will occur if the ITIN is not used on a tax return at least once in a consecutive three-year period. This process will not be dependent on the ITIN status recorded in the RTS.

### **IMPLEMENTATION DATE**

N/A

### **RESPONSIBLE OFFICIAL**

N/A

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 16**

Review the 509 ITINs we identified that have not been deactivated as required and take the actions needed to revoke, deactivate, or renew them as appropriate.



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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### **CORRECTIVE ACTION**

We will review the 509 ITINs that were identified as not being deactivated and take the necessary actions as appropriate.

### **IMPLEMENTATION DATE**

February 15, 2021

### **RESPONSIBLE OFFICIAL**

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

### **CORRECTIVE ACTION MONITORING PLAN**

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

### **RECOMMENDATION 17**

Develop processes and procedures to identify ITINs that are used on paper-filed prior year returns, subsequently updated to a valid status during tax return processing, or used on a tax return that the IRS was initially unable to post to the Master File that were subsequently corrected and ensure that actions are taken to reactivate these ITINs.

### **CORRECTIVE ACTION**

The referenced ITINs represent less than 1% of ITIN holders and procedures are already in place to require these individuals to submit a renewal application in order to reactivate their ITIN.

### **IMPLEMENTATION DATE**

N/A

### **RESPONSIBLE OFFICIAL**

N/A

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 18**

Review the 6,729 ITINs we identified as deactivated in error and reactivate as appropriate.

### **CORRECTIVE ACTION**

We reviewed the 6,729 ITINs identified by TIGTA and determined that they are scheduled for expiration on December 31, 2020. Therefore, any effort to reactivate these ITINs would soon be nullified and would provide little, if any, benefit to taxpayers.



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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### **IMPLEMENTATION DATE**

N/A

### **RESPONSIBLE OFFICIAL**

N/A

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 19**

Ensure that the taxpayers associated with the 7,003 ITINs that were erroneously deactivated and subsequently used on a tax return receive the benefits to which they are entitled.

### **CORRECTIVE ACTION**

The 7,003 referenced ITINs are a subset of the initial 8,793 that were noted as deactivated in error. We found that 2,064 of the 8,793 ITINs subsequently expired on January 1, 2020, and as such, they will not be reactivated. When we reviewed the remaining 6,729 ITINs to determine whether manual reactivation is appropriate, we determined that they are all scheduled for deactivation on December 31, 2020 and, therefore, will not be reactivated.

### **IMPLEMENTATION DATE**

N/A

### **RESPONSIBLE OFFICIAL**

N/A

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 20**

Develop processes and procedures to identify retroactive claims erroneously paid and erroneously disallowed due to tax examiner errors. Once these claims are identified, take steps to recover erroneous credit payments or ensure that taxpayers receive the benefits to which they are entitled.

### **CORRECTIVE ACTION**

We will determine the feasibility of creating a systemic process to identify returns in which tax examiner errors erroneously deny or allow claims to which the taxpayers are or are not entitled. Any identified solution will require programming resources, which are limited and subject to competing programming priorities. Consequently, we cannot provide an implementation date.



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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### **IMPLEMENTATION DATE**

N/A

### **RESPONSIBLE OFFICIAL**

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

### **CORRECTIVE ACTION MONITORING PLAN**

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

### **RECOMMENDATION 21**

Review the 371 tax returns we identified where the IRS incorrectly denied retroactive credit claims and take the steps needed to ensure that these taxpayers receive the benefits to which they are entitled.

### **CORRECTIVE ACTION**

We will review the 371 returns identified by TIGTA and ensure the impacted accounts are corrected as appropriate.

### **IMPLEMENTATION DATE**

March 15, 2021

### **RESPONSIBLE OFFICIAL**

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

### **CORRECTIVE ACTION MONITORING PLAN**

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

### **RECOMMENDATION 22**

Discontinue allowing the CAAs to authenticate an applicant's identity and foreign status. Limit CAAs involvement to assisting individuals in gathering applicable documents and completing the ITIN applications.

### **CORRECTIVE ACTION**

We believe this action may be contradictory to the Protecting Americans from Tax Hikes Act of 2015, which encourages the geographic expansion of community-based CAAs to facilitate the Form W-7 application process. One of the primary ways this is accomplished is through the CAA's ability to authenticate documents for their respective clients. This allows those clients to retain their original documents. This is particularly critical for non-resident applicants who have limited alternatives for assistance with this process.



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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### **IMPLEMENTATION DATE**

N/A

### **RESPONSIBLE OFFICIAL**

N/A

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 23**

Ensure that follow-up reviews are conducted as required, if the IRS continues to allow the CAAs to authenticate an applicant's identity and foreign status.

### **CORRECTIVE ACTION**

We have existing processes that ensure follow-up reviews are conducted. Follow-up reviews are an integral part of the CAA compliance review process and are conducted on CAAs who receive a compliance review finding of probation. During the probationary period, which is one year, CAAs are required to take corrective actions to address issues identified during the initial compliance review. A follow-up review is conducted to ensure the measures taken are effective and that CAAs are adhering to program guidelines.

### **IMPLEMENTATION DATE**

Implemented

### **RESPONSIBLE OFFICIAL**

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

### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **RECOMMENDATION 24**

If the IRS continues to allow the CAAs to authenticate an applicant's identity and foreign status, change the program requirements to prohibit or put further conditions on reentry into the program for the CAAs that were terminated due to significant noncompliance.

### **CORRECTIVE ACTION**

The CAAs who receive a compliance review finding of termination are suspended from program participation for a period of one year from the date of notification. The suspension period is warranted due to the nature of the identified sanctions from the compliance review. However, we do allow these participants to reapply after their suspension period. They should take corrective actions to prevent a repeat of prior sanctions, should they seek subsequent approval to participate in the Acceptance Agent



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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program. If approved, existing measures will identify them for a subsequent compliance review if they are not compliant with program guidelines. We prohibit reentry into the program if the CAA is found to have engaged in fraudulent behavior.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A



**Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need**

**Appendix V**

**Glossary of Terms**

<b>Term</b>	<b>Definition</b>
Acceptance Agent	An individual or entity authorized by the IRS to assist individuals in completing their ITIN application. Acceptance Agents are not authorized to certify the authenticity of supporting documents used to prove an applicant's identity and foreign status.
Certifying Acceptance Agent (CAA)	An individual or entity authorized by the IRS to assist individuals with completing their ITIN application, including certifying the authenticity of supporting documents used to prove an applicant's identity and foreign status.
Data Center Warehouse	A TIGTA repository of IRS data.
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.
Individual Master File (IMF)	The IRS database that maintains transactions or records of individual tax accounts.
Individual Return Transaction File	A database the IRS maintains that contains information on the individual tax returns it receives.
Individual Taxpayer Identification Number (ITIN)	A nine-digit number assigned by the IRS to taxpayers who are required to have a TIN for Federal tax purposes but 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.
Joint Audit Management Enterprise System (JAMES)	Audit tracking system to track, monitor, and report on internal control audit results.
National Account Profile (NAP)	IRS database that is a compilation of selected entity data from various IRS Master Files that also includes data from the Social Security Administration.
Real-Time System (RTS)	A web-based application used by ITIN tax examiners to process, assign, and record applicant submissions from individuals with tax consequences who do not have and are not eligible for an SSN. Tax examiners review all applications and attached documents then input the information into the ITIN RTS.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
Taxpayer Assistance Center (TAC)	An IRS office with employees who answer questions, provide assistance, and resolve account-related issues for taxpayers face to face.



## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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Taxpayer Identification Number (TIN)

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, an SSN, or an ITIN.

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## Processes Do Not Ensure That Individual Taxpayer identification Numbers Are Issued to Only Qualifying Individuals With a Tax Administration Need

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## Appendix VI

### Abbreviations

CAA	Certifying Acceptance Agent
CP	Computer Paragraph
IMF	Individual Master File
IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
NAP	National Account Profile
PATH Act	Protecting Americans From Tax Hikes Act of 2015
PII	Personally Identifiable Information
RTS	Real-Time System
SRT	Secondary Review Team
SSN	Social Security Number
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number