

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **Processing of Recovery Rebate Credit Claims During the 2021 Filing Season**

May 19, 2022

Report Number: 2022-46-032

**Why TIGTA Did This Audit**

This audit was initiated to assess the IRS's processing of Recovery Rebate Credit (RRC) claims during the 2021 Filing Season.

The *Coronavirus Aid, Relief, and Economic Security (CARES) Act* and the *Consolidated Appropriations Act, 2021 (CAA)* authorized the IRS to make advance payments of the RRCs to eligible individuals. Taxpayers who claim the RRC on their Tax Year 2020 returns must reduce the credit by any advance payment they received.

**Impact on Tax Administration**

As of May 27, 2021, the IRS had processed 26.3 million tax returns with RRC claims totaling \$39.2 billion.

Of these, the IRS issued potentially improper RRC payments totaling \$898 million. These include \$79.8 million in the RRC that should have been paid to eligible individuals and \$818.5 million in the RRC that was paid to ineligible individuals. The IRS declined to review nearly \$598 million of the improper payments and take the actions needed to recover them.

Additionally, the IRS stated it has no plans to further assist approximately 10 million potentially eligible individuals in receiving their payment.

**What TIGTA Found**

The IRS correctly calculated the allowable RRC for 26.1 million (99.3 percent) of the 26.3 million tax returns that claimed an RRC as of May 27, 2021. TIGTA's testing identified 181,743 returns for which IRS programming (11,797 returns), Error Resolution function tax examiner (167,130 returns) errors, and timing issues (2,816 returns) resulted in the incorrect RRC being given to the taxpayer.

In addition, 355,015 potentially ineligible individuals were erroneously issued the RRC. These include ineligible dependents, nonresidents, and individuals associated with a credit from a U.S. Territory. TIGTA also identified approximately 10 million potentially eligible individuals who have not received an RRC as of May 27, 2021.

Finally, debit card policies and the decision to manually verify RRC claims unnecessarily burdened taxpayers and delayed access to stimulus payments for some taxpayers.

TIGTA issued 12 alerts during this review to alert the IRS of our concerns. The IRS implemented programming changes to address one alert and agreed to take action on four additional alerts. These actions include reviewing the tax returns TIGTA identified, taking the actions necessary to correct the taxpayers' tax accounts, and implementing processes to automate the error resolution process for RRC claims filed during the 2022 Filing Season.

**What TIGTA Recommended**

TIGTA made 22 recommendations to the IRS. They include taking actions needed to correct erroneous RRC payments; ensuring that eligible individuals receive their credit, and notifying individuals who have not filed a tax return or did not claim the RRC of their potential eligibility. TIGTA also recommended that the IRS obtain recurring data in Processing Year 2022 to identify individuals who have not activated their debit card for the advance American Rescue Plan Act stimulus payment and establish processes to reverse these advance payments so individuals can receive the RRC on their Tax Year 2021 tax return.

The IRS agreed with eight of the 22 recommendations. The IRS did not agree to review erroneous payments totaling nearly \$598 million that were paid to ineligible individuals as of May 27, 2021. The IRS also did not agree to conduct analysis to identify and recover additional erroneous RRC payments issued after May 27, 2021. Finally, the IRS did not agree to take any actions to ensure that the approximately 10 million potentially eligible individuals TIGTA identified as of May 27, 2021, receive their RRC or to identify additional individuals who are eligible for the RRC but did not claim the credit.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

## U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

May 19, 2022

### MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

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

**SUBJECT:** Final Audit Report – Processing of Recovery Rebate Credit Claims  
During the 2021 Filing Season (Audit # 202140621)

This report presents the results of our review to assess the processing of the Recovery Rebate Credit claims during the 2021 Filing Season, including ensuring that taxpayers are properly reconciling advanced Economic Impact Payments received during Calendar Year 2020. This review is part of our Fiscal Year 2022 Annual Audit Plan and addresses the major management and performance challenge of *Administration of Tax Law Changes and Pandemic Relief Benefits*.

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

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

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## Background

The *Coronavirus Aid, Relief, and Economic Security (CARES) Act*,<sup>1</sup> signed into law on March 27, 2020, created a refundable tax credit, the Recovery Rebate Credit (RRC), of up to \$1,200 per eligible adult to be applied toward the taxpayer's Tax Year 2020 tax liability. In addition, eligible individuals can receive up to \$500 for each child in their family who is under 17 years old. The CARES Act defines eligible individuals as those with adjusted gross income up to \$75,000<sup>2</sup> (\$150,000 for married couples filing a joint return). Individuals with adjusted gross income above the income thresholds will have their credit reduced by 5 percent of the amount by which their adjusted gross income exceeds the threshold amount. In addition to the income requirements, individuals:

- Must have a work-eligible Social Security Number (SSN). Married members of the military are eligible as long as one spouse has a work-eligible SSN, *i.e.*, one spouse can have an Individual Taxpayer Identification Number.<sup>3</sup>
- Must be a U.S. citizen or resident alien.
- Cannot be claimed as a dependent on someone else's Federal income tax return.

The *Consolidated Appropriations Act, 2021 (CAA)*,<sup>4</sup> enacted on December 27, 2020, created an additional RRC of up to \$600 for each eligible individual and \$600 for each eligible child. The CAA also modified the eligibility requirements for the CARES Act RRC. The CAA:<sup>5</sup>

- **Modified the SSN requirement for Married Filing Joint filers.** The CARES Act required both individuals on a Married Filing Joint return to have a valid SSN unless one spouse is a member of the military. The CAA modified this requirement to make all Married Filing Joint filers in which only one spouse has a valid SSN eligible for the credit. However, the law clarified that for nonmilitary families, only the spouse and qualifying children who have a valid SSN are to be considered when determining the credit amount to which these filers are entitled.
- **Increased the income threshold for individuals filing as a Qualifying Widow(er) from \$75,000 to \$150,000.** Under the CARES Act, Qualifying Widow(er) filers with adjusted gross income above \$75,000 will have their CARES Act credit reduced by 5 percent of the amount by which their adjusted gross income exceeded the threshold amount. The CAA increased the income threshold for Qualifying Widow(er) filers to \$150,000.
- **Provided eligibility for deceased individuals.** The CARES Act did not specify whether individuals who were deceased before January 1, 2020, qualified for the credit. The CAA provided eligibility to individuals who died in Calendar Year 2020.

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<sup>1</sup> Pub. L. No. 116-136, 134 Stat. 281 (codified as amended in scattered sections of 2, 5, 12, 15, 20, 21, 29, 42, and 45 U.S.C.).

<sup>2</sup> Up to \$112,500 for individuals claiming Head of Household filing status.

<sup>3</sup> See Appendix V for a glossary of terms.

<sup>4</sup> Pub. L. No 116-260.

<sup>5</sup> Appendix III provides a comparison of the major provisions of the CARES Act and the CAA.

## Advance payments of the RRC

Both the CARES Act and the CAA authorized the Internal Revenue Service (IRS) to make an advance payment of the respective RRCs to eligible individuals. The advance payments are referred to as Economic Impact Payments (EIP). The CARES Act prohibited the IRS from issuing advance payments of the CARES Act RRC after December 31, 2020. Similarly, the IRS was required to issue advance payments under the CAA no later than January 15, 2021. Figure 1 shows the number of advance payments issued by the IRS.

**Figure 1: EIPs Issued**

EIP	Number	Amount
CARES EIP (EIP1)	161.9 million	\$271.4 billion
CAA EIP (EIP2)	146.5 million	\$141.5 billion
<b>Total EIP Issued</b>	<b>308.5<sup>6</sup> million</b>	<b>\$412.9 billion</b>

*Source: IRS, Research, Applied Analytics, and Statistics; CARES EIP (EIP1) as of December 31, 2020; and CAA EIP (EIP2) as of February 4, 2021.*

Both the CARES Act and the CAA require the IRS to send a notice to individuals notifying them of the amount of the payment, the method used to send the payment, and the telephone number to contact the IRS. The IRS established processes to send notices for both advance payments. Taxpayers can use these notices to determine the total amount of EIP received when determining whether they are eligible to receive an RRC on their Tax Year 2020 tax return.

## Claiming the RRC

The RRC is a refundable tax credit claimed on Line 30 of Form 1040, *U.S. Individual Income Tax Return*. Individuals who claim the RRC must reduce the credit by any EIP they received. The IRS refers to this process as reconciling EIPs. Individuals use a worksheet in the Form 1040 instructions to reconcile their EIPs and determine the amount of the RRC they can claim on their Tax Year 2020 tax return. Figure 2 shows where taxpayers claim the RRC on the Form 1040.

<sup>6</sup> Numbers do not add up due to rounding.

Figure 2: Tax Year 2020 Form 1040, Page 2

Form 1040 (2020) Page **2**

<b>16</b>	<b>Tax</b> (see instructions). Check if any from Form(s): <b>1</b> <input type="checkbox"/> 8814 <b>2</b> <input type="checkbox"/> 4972 <b>3</b> <input type="checkbox"/>	<b>16</b>
<b>17</b>	Amount from Schedule 2, line 3	<b>17</b>
<b>18</b>	Add lines 16 and 17	<b>18</b>
<b>19</b>	Child tax credit or credit for other dependents	<b>19</b>
<b>20</b>	Amount from Schedule 3, line 7	<b>20</b>
<b>21</b>	Add lines 19 and 20	<b>21</b>
<b>22</b>	Subtract line 21 from line 18. If zero or less, enter -0-	<b>22</b>
<b>23</b>	Other taxes, including self-employment tax, from Schedule 2, line 10	<b>23</b>
<b>24</b>	Add lines 22 and 23. This is your <b>total tax</b>	<b>24</b>
<b>25</b>	Federal income tax withheld from:	
<b>a</b>	Form(s) W-2	<b>25a</b>
<b>b</b>	Form(s) 1099	<b>25b</b>
<b>c</b>	Other forms (see instructions)	<b>25c</b>
<b>d</b>	Add lines 25a through 25c	<b>25d</b>
<b>26</b>	2020 estimated tax payments and amount applied from 2019 return	<b>26</b>
<b>27</b>	Earned income credit (EIC)	<b>27</b>
<b>28</b>	Additional child tax credit. Attach Schedule 8812	<b>28</b>
<b>29</b>	American opportunity credit from Form 8863, line 8	<b>29</b>
<b>30</b>	<b>Recovery rebate credit. See instructions</b>	<b>30</b>
<b>31</b>	Amount from Schedule 3, line 13	<b>31</b>
<b>32</b>	Add lines 27 through 31. These are your <b>total other payments and refundable credits</b>	<b>32</b>
<b>33</b>	Add lines 25d, 26, and 32. These are your <b>total payments</b>	<b>33</b>

• If you have a qualifying child, attach Sch. EIC.  
• If you have nontaxable combat pay, see instructions.

Source: IRS.gov, Tax Year 2020 Form 1040.

Those who received more in EIPs than they are entitled do not have to repay the excess credit. Individuals who received less in EIPs than they are entitled can claim the additional RRC on their tax return. Any additional RRC will be included in the taxpayer's refund. Unlike EIPs, the CARES Act and the CAA authorize the IRS and the Department of the Treasury (hereafter referred to as Treasury) Bureau of the Fiscal Service (BFS) to use the RRC to offset unpaid taxes and other Federal debt such as child support.<sup>7</sup>

## Verification of RRC claims

When tax returns with an RRC claim are processed, the IRS compares the amount claimed by the taxpayer to the amount of EIPs received that are recorded on their tax account. Tax returns with a discrepancy between the RRC claimed by the taxpayer and the RRC computed by the IRS's computer program are sent to the Error Resolution function (ERS) for manual verification. The ERS tax examiner uses EIP information recorded in the taxpayer's tax account and information contained on the tax return to manually re-compute the taxpayer's allowable RRC. If the RRC claimed on the tax return is more than the amount computed by the ERS tax examiner, the tax examiner will deny the excess credit.

The IRS sends taxpayers a notice explaining the reason their RRC was changed. The notice also includes instructions for contacting the IRS if the taxpayer does not agree with the RRC adjustment.

<sup>7</sup> In March 2021, the IRS announced it was exercising discretion and not offsetting the RRC to unpaid Federal prior year tax debt. However, the RRC will continue to be offset to other Federal debt.

## **Results of Review**

As of May 27, 2021, the IRS processed 128 million tax returns, of which 26.3 million tax returns claimed \$39.2 billion in the RRCs. Our review of the 26.3 million tax returns found that the IRS correctly calculated the allowable RRC amount for 26.1 million (99.3 percent) of the returns. However, we identified 355,015 ineligible individuals who received potentially erroneous RRCs totaling more than \$603 million. These include the RRCs issued to individuals who are claimed as a dependent on another tax return, claimed as a dependent on more than one tax return, or a dependent for which an EIP was already paid; and individuals who are nonresident aliens or Territory residents.

Our review also found that Treasury debit card policies and the manual verification of RRC claims with error conditions unnecessarily burdened some taxpayers.

We issued 12 alerts to IRS management during our review to notify them of deficiencies we identified. IRS management implemented programming changes in response to one alert and agreed to take action on four additional alerts.

### **Calculation of Allowable Recovery Rebate Credit Was Correct for 99.3 Percent of Claims Reviewed**

The IRS correctly calculated the RRC amount for 26.1 million (99.3 percent) of the 26.3 million tax returns processed as of May 27, 2021, with an RRC claim. The 181,743 returns in which the IRS's calculation of the RRC amount was incorrect include:

- 117,314 returns in which the calculated RRCs were \$218.7 million more than the taxpayers were entitled to receive.
- 64,429 returns in which the calculated RRCs were \$80 million less than the taxpayers were entitled to receive.

The incorrectly calculated RRCs resulted from:

- *ERS tax examiner errors.* Our testing identified 167,130 returns with the RRCs totaling \$281.1 million in which tax examiners incorrectly calculated the RRC when resolving RRC claims that had an RRC reporting discrepancy. For example, tax examiners incorrectly calculated the number of eligible dependents on the tax return and allowed the wrong amount of the RRC.
- *IRS programming errors.* Our testing identified 11,797 returns with the RRCs totaling \$15.2 million in which IRS programming incorrectly included EIPs issued to the taxpayer's spouse in the calculation of the taxpayer's allowable RRC on a Married Filing Separate return.
- *Timing issues.* Our testing identified 2,816 returns with the RRCs totaling \$2.3 million in which a returned EIP was incorrectly included in the RRC calculation. These calculation errors occurred because the IRS processed tax returns and EIP reversals simultaneously, *e.g.*, EIP was reversed at the same time or after the tax return was processed.

In addition, our review of the 26.3 million RRC claims processed as of May 27, 2021, found that the IRS's RRC fraud filters were generally working as intended. However, a programming error



prevented 7,478 tax returns with potentially erroneous RRCs totaling \$29.4 million from being identified for additional review before the RRCs were paid. IRS programming did not identify Married Filing Joint returns for additional review when the spouse had a nonwork SSN. To be eligible for the RRC, an individual must have an SSN that is valid for work. In addition, the IRS's programmed RRC dollar tolerance prevented 348 tax returns with the RRCs totaling \$85,446 from additional review.

**Recommendation 1 (E-Mail Alert):** On June 15, 2021, we alerted IRS management of our concerns with the systemic calculation of the allowable RRC amount. We recommended that IRS management review the returns we identified and provide us with any corrective actions they intended to take.

**Management's Response:** The IRS agreed with this recommendation. IRS management reviewed the identified returns, confirmed the errors, and implemented programming changes to correct the condition. Management also plans to review the affected returns and take appropriate action to correct them. We confirmed the programming changes were implemented and operating as intended.

**Recommendation 2 (E-Mail Alert):** On March 19, 2021, we alerted IRS management of our concerns that an incorrect amount of advance payments was being used to calculate the RRC for some taxpayers. We recommended that IRS management review the returns we identified and provide us with any corrective actions they intended to take.

**Management's Response:** The IRS agreed with this recommendation. IRS management determined the incorrect amounts of advance payments were due to timing issues caused when tax returns claiming the RRC were processed before returned advance payments posted to the taxpayer accounts. Upon posting, the returned payments adjusted the advance payment amounts recorded for the taxpayers. The condition could cause a return to be referred to the ERS for review and treatment. When the returns were subsequently reviewed by employees, the error condition was revalidated using the current payment information, which included any adjustments made for advance payments that posted after the return had been identified for review. In those cases in which the RRC was adjusted before returned payments were recorded, the math error notice sent to the taxpayer(s) informed them of options for notifying the IRS if they disagreed with the adjustment. When taxpayers disagree with math error notices, the disagreed issue is researched, and the account will be corrected if the math error notice was issued in error. With respect to the RRC, current payment information reflecting subsequently posted returned payments is available to the employee researching the issue. Upon correction, the taxpayer will receive the additional refund to which they are entitled.

**Office of Audit Comment:** Although IRS management agreed with our recommendation, the process IRS management noted does not consider the additional burden these taxpayer face in obtaining their RRC. The math error notice referenced by management requires the taxpayer to write or call the IRS to receive their RRC. As of March 19, 2022, the IRS had a backlog of 2.2 million unprocessed individual amended tax returns. As of March 18, 2022, the IRS

reported a 16.5 percent toll-free telephone Level of Service<sup>8</sup> with a 26-minute average speed of answer.

**Recommendation 3 (E-Mail Alert):** On April 6, 2021, we alerted IRS management of our concerns regarding ERS tax examiners incorrectly computing the RRC (see management's action in response to Recommendation 1). We recommended the IRS review the returns we identified and take the actions necessary to ensure that these taxpayers receive the amount of the RRC they are entitled to receive.

**Management's Response:** The IRS agreed with this recommendation and plans to review the affected returns and take appropriate action to correct them.

**Recommendation 4 (E-Mail Alert):** On March 12, 2021, we alerted IRS management of our concerns that some tax returns were not being identified by fraud filters. We recommended IRS management review the returns we identified and associated fraud filters to identify why these returns were not selected and make programming changes as necessary to ensure proper identification of returns with potentially questionable claims.

**Management's Response:** The IRS agreed with this recommendation. IRS management has reviewed the identified tax returns and confirmed the fraud filters had not selected all returns they should have. Programming updates were implemented on March 18, 2021, to address the issue.

The Commissioner, Wage and Investment Division, should:

**Recommendation 5:** Conduct analysis to identify Tax Year 2020 RRC claims processed after May 27, 2021, to identify other returns in which ERS tax examiners incorrectly calculated the number of allowable dependents and returns that were not reprocessed per IRS guidance after programming was corrected, and ensure that these taxpayers receive the correct amount of the RRC.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that reviewing RRC claims processed after May 27, 2021, would require them to divert limited resources for which there is only a 0.7 percent projected error rate. As stated previously, there is a process of review and reconsideration available to individuals who believe a correction made to their return during processing is not correct. The IRS proactively communicated with taxpayers about perceived discrepancies and provided information on avenues for resolution. Taxpayers are notified of any changes to the RRC and have the right to reconsideration and appeal if they do not agree with them.

**Office of Audit Comment:** Although the projected error rate is low, the number of taxpayers affected and the amount of the RRC is substantial. For example, we identified 181,743 tax returns with incorrect RRCs totaling \$298.7 million as of May 27, 2021. In addition, the process IRS management noted does not consider the additional burden these taxpayers face in obtaining their RRC. The process

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<sup>8</sup> The Level of Service is the IRS's primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS's toll-free telephone lines. The IRS's measure is titled Customer Service Representative Level of Service.

referenced by management requires the taxpayers to write or call the IRS to receive their RRC. As of March 19, 2022, the IRS had a backlog of 2.2 million unprocessed individual amended tax returns. As of March 18, 2022, the IRS reported a 16.5 percent toll-free telephone Level of Service with a 26-minute average speed of answer.

## **Recovery Rebate Credits Paid to Ineligible Individuals**

Our review of tax returns processed as of May 27, 2021, with an RRC claim identified 355,015 individuals who filed tax returns with potentially erroneous claims. These individuals received the RRC totaling more than \$603 million. We issued three alerts to IRS management regarding our concerns. IRS management agreed that 7,022 of the 355,015 individuals we identified received an RRC for a dependent who was claimed on more than one tax return. IRS management also agreed that the 14,508 individuals we identified who were claimed as a dependent on someone else's tax return overclaimed their RRCs. These erroneous RRC payments totaled more than \$32.9 million. IRS management stated that the overclaimed RRC will be addressed for those returns selected for post-processing treatment. However, IRS management stated that the IRS does not have the resources to address every return involving a duplicated dependent. For the remaining individuals, IRS management did not agree with our conclusion that these individuals were not eligible to receive an RRC.

The potentially ineligible individuals we identified include:

- ***Individuals who are claimed as a dependent on another tax return***

We identified 14,508 individuals who received the RRCs totaling more than \$25.2 million who were claimed as a dependent on someone else's tax return. The CARES Act and the CAA state that an individual is not eligible for the RRC if they can be claimed as a dependent by someone else. Individuals are instructed to check a box on their tax return to notify the IRS that they can be claimed as someone else's dependent. The IRS relied on this checkbox to identify individuals who were not eligible for an RRC. However, the 14,508 individuals we identified did not check the dependent checkbox on their return as required.

In addition, we identified 238,680 individuals under the age of 25 who are potential dependents of another taxpayer. As of October 28, 2021, these individuals received nearly \$427 million in potentially erroneous RRCs. These individuals were claimed as a dependent on a Tax Year 2019 return and used the same address from the Tax Year 2019 return on their Tax Year 2020 return. Further, IRS records show that these individuals did not have the means to provide at least one-half of their support during Tax Year 2020. These include:

- 215,551 individuals age 17 to 24 for which IRS records show the individual attended<sup>9</sup> a post-secondary education institution during Tax Year 2020 and reported less than \$5,000 in income on their Tax Year 2020 return. These individuals received \$385 million in the RRCs.

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<sup>9</sup> IRS records indicate these individuals attend at least half time.

- 22,020 individuals age 17 or 18 for which IRS records show the individual did not attend a post-secondary education institution during Tax Year 2020 but reported less than \$5,000 in income on their Tax Year 2020 return. These individuals received nearly \$39.9 million in the RRCs.
- 1,109 individuals under the age of 17 who received nearly \$2 million in the RRCs.

The Commissioner, Wage and Investment Division, should:

**Recommendation 6:** Review the 14,508 individuals identified in which the IRS issued an RRC to an individual who was claimed as a dependent on someone else's tax return but did not check the dependent box and take the actions needed to recover payments that are determined to be erroneous.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that eligibility for the RRC and the amount allowable is determined from the information individuals provide on their tax returns. Each return is signed by the return filer(s), declaring under penalties of perjury that they have examined the return and accompanying schedules and statements, and to the best of their knowledge and belief, they are true, correct, and complete. When individuals fail to indicate they may be claimed as dependents by others, the IRS's post-processing compliance checks would identify those returns and the returns on which they were claimed by others. Determining who is entitled to claim the dependent and any associated tax benefits is a question of fact that is addressed under deficiency procedures by its compliance functions. These returns are subject to selection for examination as resources allow.

**Office of Audit Comment:** We plan to evaluate the effectiveness of IRS efforts to identify and recover erroneous RRC payments.

**Recommendation 7:** Conduct analysis of Tax Year 2020 tax returns processed after May 27, 2021, to identify additional individuals who received an RRC and were also claimed as a dependent on someone else's tax return but did not check the dependent box, and take the actions needed to recover the RRC payments that are determined to be erroneous.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that reviewing returns processed after May 27, 2021, would require the IRS to divert limited resources to review these returns when such a small portion, five one-hundredths of 1 percent, are projected to be affected by the issue. The IRS's post-processing compliance checks analyze all returns for instances of dependents claimed on multiple returns and will identify them for potential selection and examination by its compliance functions.

**Office of Audit Comment:** We plan to evaluate the effectiveness of IRS efforts to identify and recover erroneous RRC payments.

**Recommendation 8:** Review the 238,680 individuals under the age of 25 identified as potential dependents and take the actions needed to recover payments that are determined to be erroneous.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that Internal Revenue Code §§ 6428 and 6428A do not have age

restrictions or a minimum income amount applicable to dependents claimed previously on 2018 or 2019 returns. The returns management reviewed reported wages and salaries as well as other income. Therefore, the credits allowed on these returns during processing are correct. All returns are subject to examination and if, upon examination, it is found the individuals are the dependents of other taxpayers, the returns will be adjusted accordingly.

**Office of Audit Comment:** We plan to evaluate the effectiveness of IRS efforts to identify and recover erroneous RRC payments.

- ***Dependents who had already received an EIP***

We identified 15,741 individuals who received over \$12.9 million more in the RRCs for a qualifying dependent than they were entitled. These improper payments involve individuals whose filing status changed between Tax Year 2019 and Tax Year 2020<sup>10</sup> and occurred because the IRS does not record EIPs by dependent. For a Married Filing Joint tax return, the IRS records one-half of the EIP issued for the taxpayers and their dependents on each spouse's tax account. This incorrectly makes it appear as if a taxpayer received an EIP for fewer dependents than was actually paid. As a result, changes in a taxpayer's filing status or how dependents are claimed from year to year can result in erroneous RRC payments. For example,<sup>11</sup> a taxpayer received an EIP for their self, their spouse, and two children based on the Tax Year 2019 Married Filing Joint return. However, the taxpayer's tax account shows the taxpayer only received an EIP for their self and one child, *i.e.*, one-half of the total EIP issued. The taxpayer files as Head of Household in Tax Year 2020 with the same two children and claims an RRC for one of the children. Because the taxpayer's tax account shows the taxpayer only received an EIP for one child, the IRS incorrectly allowed the RRC for the second child.

The Commissioner, Wage and Investment Division, should:

**Recommendation 9:** Review the 15,741 individuals identified in which the individual incorrectly received an RRC and an EIP for the same qualifying child and take the actions needed to recover RRC payments that are determined to be erroneous.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated the returns of individuals who received both an EIP and an RRC for the same qualifying child are subject to a selection for examination by their compliance programs.

**Office of Audit Comment:** We plan to evaluate the effectiveness of IRS efforts to identify and recover erroneous RRC payments.

**Recommendation 10:** Conduct analysis of Tax Year 2020 tax returns processed after May 27, 2021, to identify additional individuals who received an RRC for a qualifying child for

<sup>10</sup> The first EIP could also have been issued using a Tax Year 2018 tax return if a Tax Year 2019 return was not available.

<sup>11</sup> All examples are hypothetical.

which the IRS has already paid an EIP or an RRC to someone else and take the actions needed to recover RRC payments that are determined to be erroneous.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated the returns of individuals who received both an EIP and an RRC for the same qualifying child are subject to a selection for examination by their compliance programs.

**Office of Audit Comment:** We plan to evaluate the effectiveness of IRS efforts to identify and recover erroneous RRC payments.

- ***Dependents claimed on more than one individual tax return***

We identified 7,022 individuals who received more than \$7.7 million in potentially erroneous RRCs for qualifying children who were claimed for the RRC on more than one tax return. These 7,022 tax returns involve 8,410 unique dependent Taxpayer Identification Numbers (TIN). The number of times a particular dependent's TIN was used on a tax return ranged from two tax returns to five tax returns. To be a qualifying child for the RRC, the child must be a dependent child under 17 years of age as defined for the Child Tax Credit. In addition, Internal Revenue Code § 152(c)(4) states that a child can only be the qualifying child of one taxpayer, *i.e.*, can only be claimed on one tax return.

However, IRS processes do not prevent the issuance of multiple RRCs for the same dependent. The IRS captures each use of a TIN for an applicable tax year in the Duplicate TIN database. The TINs that are used more than once are identified with a priority code. However, IRS management informed us that, at the time of processing returns, the IRS does not have the statutory authority nor ability to review returns to determine who is entitled to claim the dependent. IRS management stated that the overclaimed RRCs will be addressed for those returns selected for post-processing treatment. However, IRS management stated that the IRS does not have the resources to address every return involving a duplicated dependent.

The Commissioner, Wage and Investment Division, should:

**Recommendation 11:** Review the 7,022 individuals identified in which the IRS issued multiple RRCs for a qualifying child who was claimed on more than one tax return and take the actions needed to recover payments that are determined to be erroneous.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that eligibility for the RRC and the amount allowable is determined from the information individuals provide on their tax returns. Each return is signed by the return filer(s), declaring under penalties of perjury that they have examined the return and accompanying schedules and statements, and to the best of their knowledge and belief, they are true, correct, and complete. When qualifying children are claimed on more than one return for the same tax year, the IRS's post-processing compliance checks will identify those returns. Determining who is entitled to claim the qualifying child and any associated tax benefits is a question of fact that is addressed under deficiency procedures by the IRS's compliance functions. These returns are subject to selection for examination as resources allow.



**Office of Audit Comment:** We plan to evaluate the effectiveness of IRS efforts to identify and recover erroneous RRC payments.

**Recommendation 12:** Conduct analysis of Tax Year 2020 tax returns processed after May 27, 2021, to identify additional individuals who received an RRC for a qualifying child who was claimed on more than one tax return and take the actions needed to recover payments that are determined to be erroneous.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated eligibility for the RRC and the amount allowable is determined from the information individuals provide on their tax returns. Each return is signed by the return filer(s), declaring under penalties of perjury that they have examined the return and accompanying schedules and statements, and to the best of their knowledge and belief, they are true, correct, and complete. When qualifying children are claimed on more than one return for the same tax year, the IRS's post-processing compliance checks will identify those returns. Determining who is entitled to claim the qualifying child and any associated tax benefits is a question of fact that is addressed under deficiency procedures by the IRS's compliance functions. These returns are subject to selection for examination as resources allow.

**Office of Audit Comment:** We plan to evaluate the effectiveness of IRS efforts to identify and recover erroneous RRC payments.

- **Nonresident aliens**

We identified 75,594 tax returns with RRC claims totaling more than \$125 million that were issued to individuals who are potentially a nonresident alien. The citizenship code associated with these individuals' SSNs indicates they are a legal alien authorized to work in the United States. However, these individuals had no Federal Insurance Contributions Act (FICA) tax withheld from their wages in Calendar Year 2020, which indicates they are likely not considered a U.S. resident. Certain nonresident aliens are exempt from FICA taxes based on their VISA type, such as nonresident alien students and professors temporarily present in the United States.

The CARES Act and the CAA state that to be eligible for an EIP, an individual must be a U.S. citizen or resident alien. The IRS has processes in place to prevent the issuance of the RRC to nonresident aliens who file a Form 1040-NR, *U.S. Nonresident Alien Income Tax Return*. However, as we reported in May 2021, the IRS has no processes to identify nonresident aliens who incorrectly file a Form 1040.<sup>12</sup> In addition, our review of IRS processes to identify and prevent individual international taxpayer fraud found that foreign individuals are potentially filing the incorrect tax form to claim tax benefits to which they are not entitled.<sup>13</sup>

IRS management does not agree with the method we used to determine whether an individual is potentially a nonresident alien but, as we reported previously, continues to

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<sup>12</sup> Treasury Inspector General for Tax Administration, Report No. 2021-46-034, *Implementation of Economic Impact Payments* (May 2021).

<sup>13</sup> Treasury Inspector General for Tax Administration, Report No. 2021-40-057, *Improvements Are Needed to Identify Potentially Fraudulent Individual International Tax Returns During Processing* (Sept. 2021).

offer no alternative methodology to ensure that nonresident aliens are not receiving payments.<sup>14</sup> This is despite the continued reports by nonresident aliens themselves in news media outlets of erroneously receiving EIP payments. IRS management stated that the exemption from employer withholding of FICA taxes is not a proxy for an individual's status as a resident alien or a nonresident alien. We agree there are exceptions in which a valid foreign person could be considered a resident alien and not subject to FICA tax. However, we are unable to identify individuals with these exceptions with the available tax return data. We previously recommended that the IRS implement processes to identify foreign individuals who do not file the correct tax form.<sup>15</sup> IRS management agreed with our prior recommendation, stating that they plan to study the feasibility of sampling this work and take appropriate actions based on the result of the study and available resources.

The Commissioner, Wage and Investment Division, should:

**Recommendation 13:** Review the 75,594 tax returns identified in which the individual is potentially a nonresident alien and take the actions needed to recover the RRC payments that are determined to be erroneous.

**Management's Response:** The IRS disagreed with this recommendation and the Treasury Inspector General for Tax Administration's methodology to identify taxpayers who were potentially nonresident aliens. IRS management stated that the exemption from employer withholding of FICA taxes is not a proxy for an individual's status as a resident alien or a nonresident alien. There are exceptions in which a valid foreign person could be considered a resident alien and not subject to FICA tax. Determining resident status is a question of fact that must be addressed under deficiency procedures by the IRS's compliance functions. These returns are subject to selection for examination as resources allow.

**Office of Audit Comment:** As noted in our report, IRS management offers no alternative methodology to ensure that nonresident aliens are not receiving the RRC. In addition, IRS management's statement that these tax returns are subject to examination is incorrect. As stated previously, our review of IRS processes to identify and prevent individual international taxpayer fraud found that the IRS has no processes to identify nonresident aliens who incorrectly file a Form 1040.

**Recommendation 14:** Perform analysis of Tax Year 2020 tax returns filed after May 27, 2021, to identify additional tax returns with the same characteristics as those the IRS determined were filed by a nonresident alien and take the actions needed to recover erroneous RRC payments.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that determining resident status is a question of fact that must be addressed under deficiency procedures by the IRS's compliance functions. These returns are subject to selection for examination as resources allow.

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<sup>14</sup> Treasury Inspector General for Tax Administration, Report No. 2021-46-034, *Implementation of Economic Impact Payments* (May 2021).

<sup>15</sup> Treasury Inspector General for Tax Administration, Report No. 2021-40-057, *Improvements Are Needed to Identify Potentially Fraudulent Individual International Tax Returns During Processing* (Sept. 2021).



**Office of Audit Comment:** IRS management's statement that these tax returns are subject to examination is incorrect. As stated previously, our review of IRS processes to identify and prevent individual international taxpayer fraud found that the IRS has no processes to identify nonresident aliens who incorrectly file a Form 1040.

- ***Territory residents***

We identified 3,470 individuals who filed tax returns with RRC claims totaling more than \$5.3 million. Individuals who filed these returns also appeared on a U.S. Territory report associated with an RRC issued by a U.S. Territory. Some of these individuals listed a U.S. domestic address on their U.S. tax return used to calculate the RRC while others listed a U.S. Territory address on their U.S. tax return. We provided these results to the IRS on December 3, 2021, and IRS management stated these returns were not selected for review because they did not meet filter criteria.

During the 2021 Filing Season, the IRS created fraud filters to identify the RRCs claimed by individuals who may have received or are eligible to receive the RRC from a U.S. Territory. These returns were selected for further review before the RRC could be issued. These filters identify tax returns filed using a U.S. Territory address. However, the tax returns we identified, in which the taxpayer appeared on a U.S. Territory report, were filed using a domestic, *i.e.*, United States, address.

**Recommendation 15:** The Commissioner, Wage and Investment Division, should coordinate with the Territories to confirm and recover erroneous RRCs.

**Management's Response:** The IRS agreed with this recommendation and has implemented a plan to coordinate with the Territories and share information that will enable the Territories to recover erroneous RRCs issued by the Territories, to the extent permitted under the relevant territory's domestic law. The IRS does not have the authority, however, to direct the territories to recover erroneous RRCs or to confirm that any amounts recovered are reported to the IRS, given that the territories are autonomous tax administrations.

## **Management Needs to Take Actions to Ensure That Eligible Individuals Receive Their Recovery Rebate Credit**

Our review of tax returns filed as of May 27, 2021, identified approximately 10 million individuals who are potentially eligible for an RRC and have not received it. These include:

- Nearly 6.9 million individuals who did not receive their EIP in Calendar Year 2020 and have not filed a Tax Year 2020 tax return to claim the RRC. These include nonfiler individuals, beneficiaries, and individuals deceased in Calendar Year 2020 who need to file a Tax Year 2020 return to claim their allowable RRC.
- Approximately 3.1 million individuals eligible for the RRC based on their Tax Year 2020 return who did not claim the credit. These include individuals who received EIP and are entitled to an additional RRC based on their Tax Year 2020 return. During our review, we recommended that the IRS proactively issue these individuals their RRC without requiring

them to file an amended tax return. IRS management disagreed with our recommendation, stating that they assume that the taxpayer did not claim the RRC because they knew they had already received an EIP or were otherwise not eligible. Based on our review of these returns, we do not agree with IRS management's assumption as these taxpayers did not receive an EIP for the full amount and are eligible for the RRC. The only way these taxpayers presently can obtain the RRC is to be aware that they qualify and request the RRC on their Tax Year 2020 return.

### **Management's disagreement to proactively assist taxpayers by issuing the RRC is inconsistent with actions taken to assist other taxpayers**

IRS management's disagreement with our recommendation regarding the 3.1 million eligible individuals who filed a tax return is inconsistent with actions that the IRS has taken to adjust tax returns for the Unemployment Compensation Exclusion enacted in the *American Rescue Plan Act* (ARPA).<sup>16</sup> The IRS proactively adjusted individual tax returns to exclude up to \$10,200 in unemployment benefits from taxable income. Based on this adjustment, the IRS then proactively issued the RRCs for those taxpayers who qualified, regardless of whether the taxpayer claimed the credit on their tax return. These taxpayers were not required to contact the IRS or file an amended tax return to receive their RRC. At the time of this decision, the IRS had a significant backlog of unprocessed amended tax returns. Proactively adjusting tax returns for the Unemployment Compensation Exclusion and the RRC reduced burden on the impacted taxpayers who would otherwise have their additional refunds delayed because of the amended return backlog. Proactively assisting these 3.1 million taxpayers would ensure that these taxpayers receive their stimulus payment and prevent further increases in the ongoing and significant backlog of unprocessed amended tax returns. As of October 16, 2021, the IRS still has more than 2.7 million unprocessed individual amended tax returns. These eligible taxpayers can currently obtain their RRC by filing an amended tax return or contacting the IRS to request the credit.

The Commissioner, Wage and Investment Division, should:

**Recommendation 16:** Review the nearly 6.9 million potentially eligible individuals we provided to the IRS who had not filed a Tax Year 2020 tax return as of May 27, 2021, and send a letter to those individuals who still have not filed a Tax Year 2020 return to encourage them to file a return and claim the RRC if eligible.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that taxpayers are not required to claim the RRC. The IRS has widely communicated the need to file the Tax Year 2020 tax return to claim the credit based on current household circumstances.

**Office of Audit Comment:** It is unrealistic for IRS management to assume that prior IRS communications are sufficient to ensure that all individuals, including those who do not normally file a tax return, understand whether they are eligible for the RRC and how to claim it.

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<sup>16</sup> Pub. L. No. 117-2, 135 Stat. 4 (codified in scattered sections of 7, 12, 15, 19, 20, 26, 29, 42, and 45 U.S.C.).

**Recommendation 17:** Review the 3.1 million eligible individuals we identified who filed a Tax Year 2020 return and proactively issue these taxpayers their credit.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that taxpayers are not required to claim the RRC. The IRS has widely communicated the availability of the credit based on 2020 eligibility.

**Office of Audit Comment:** For the reasons noted in the text of the report on page 14, we do not believe that IRS management's response is sufficient.

**Recommendation 18:** Conduct additional analysis to identify tax returns filed after May 27, 2021, in which an individual is eligible for the RRC based on their Tax Year 2020 tax return and did not claim the credit, and proactively issue the taxpayer their credit.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that eligible taxpayers received the RRC when it was claimed; however, taxpayers are not required to claim it. The IRS has widely communicated the availability of the credit based on 2020 eligibility.

**Office of Audit Comment:** For the reasons previously noted, we do not believe IRS management's response is sufficient.

**Recommendation 19:** If IRS management does not proactively issue the RRC to individuals who filed a return and did not claim the credit, the IRS should notify these individuals that they are eligible to claim the RRC and should file an amended tax return to claim the credit.

**Management's Response:** The IRS disagreed with this recommendation. IRS management stated that the IRS has widely communicated the availability of the RRC based on 2020 eligibility. Extensive outreach was performed through the posting of Frequently Asked Questions on IRS.gov, press releases, social media postings, targeted outreach to low-income and other disadvantaged populations, and through partnerships with other government agencies and community organizations.

**Office of Audit Comment:** For the reasons previously noted, we do not believe IRS management's response is sufficient.

## **Debit Card Policies Unnecessarily Delay Access to Stimulus Relief for Some Taxpayers**

Our review of RRC claims filed as of May 27, 2021, identified 75,395 taxpayers who had \$77.8 million in RRC claims denied because IRS records show the taxpayer had already received their credit on an EIP debit card.<sup>17</sup> Each of these taxpayers received an EIP debit card, but none had activated their card as of May 30, 2021. On March 4, 2021, the BFS sent taxpayers who had not activated their debit card a letter reminding them that their EIPs were issued on a debit card. However, 54,286 (72 percent) of the 75,395 individuals whose RRC was denied who received the reminder letter still had not activated their debit card as of July 31, 2021.

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<sup>17</sup> A debit card, instead of a paper check, containing the stimulus payments. The BFS provides information to the IRS identifying who had not activated or had returned their debit card. The IRS notates the taxpayer's tax account to show their EIP was issued on a debit card.

To obtain their RRC payment, these individuals must contact the IRS in response to the notice they received informing them that their RRC claim was denied. Once the taxpayer contacts the IRS, the taxpayer is told that they must contact the debit card issuer, Metabank® to activate their debit card or obtain a replacement card. Taxpayers can also choose to cancel their debit card and receive the funds in the form of a paper check from Metabank. However, when a card is returned to Metabank, *e.g.*, is undeliverable, the funds are returned to the IRS. The IRS will reverse the EIP in the individual's tax account so they can claim the RRC on their Tax Year 2020 tax return. An EIP debit card remains valid for three years from the date of issuance, *e.g.*, a card issued in June 2020 will remain valid until June 2023. As such, individuals who do not activate their debit card or contact Metabank to return or cancel the card will not be able to obtain their RRC until three years have passed when the debit card expires.

We notified IRS management during this review of our concerns that the issuance of debit cards was unnecessarily delaying some taxpayers' access to their stimulus payments. Individuals receiving a debit card were not asked if this was the manner they wished to receive their EIP and have no familiarity with the IRS issuing funds in this manner. This was evident as a number of news outlets reported that many individuals who were issued an EIP debit card commented that they threw the card away or destroyed it because they did not know what it was. We recommended that the IRS work with the BFS to resolve individuals' accounts who have not activated their debit card and reverse the EIP so these individuals can receive the RRC on their Tax Year 2020 tax return. This is the same process the IRS uses for advance payments issued by paper check that are returned as undeliverable or a direct deposit that is rejected by the bank. IRS management did not agree with our recommendation. IRS management stated that the fact that an individual has not activated their debit card does not mean they are unaware that they received an EIP. IRS management believes some individuals may be holding the card for later use.

Finally, IRS management informed us that the Treasury is continuing to send letters to individuals who were issued a debit card to remind them to contact Metabank and activate their card. Management stated that the number of activations in response to these letters indicates additional processes are not needed to ensure that these individuals have access to their stimulus payment. Per Metabank reports, letters were sent on March 4, 2021, and 505,697<sup>18</sup> unactivated EIP2 debit cards were subsequently activated. While these letters appear to have an effect, there were still 527,443 EIP1 and EIP2 debit cards with payments totaling nearly \$483.8 million that had not been activated as of September 5, 2021.

The ARPA, enacted on March 11, 2021, created an additional RRC for Tax Year 2021. As with the CARES Act and the CAA, the ARPA directs the IRS to make advance payments of the RRC to taxpayers. As of September 5, 2021, the BFS issued advance ARPA RRC payments on a debit card to more than 4.7 million individuals. These individuals are required to reconcile these payments on their Tax Year 2021 tax return to determine whether they are entitled to receive additional RRCs. As of September 5, 2021, 189,370 advance ARPA RRC debit cards still have not been activated.

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<sup>18</sup> Between March 2, 2021 – March 29, 2021

The Commissioner, Wage and Investment Division, should:

**Recommendation 20:** Work with the BFS to ensure that individuals who were denied the RRC and have still not activated their EIP1 or EIP2 debit card as of December 31, 2021, have EIPs reversed in their tax account and are issued their RRC. These processes should include notifying Metabank that the debit cards in question are to be cancelled.

**Management's Response:** The IRS agreed with this recommendation and plans to continue its ongoing efforts with the BFS to reverse any debit card that has been returned or canceled by the recipient, and to issue the appropriate RRC.

**Recommendation 21:** Work with the BFS to obtain recurring data during Processing Year 2022 to identify individuals who have not activated their advance ARPA RRC debit card at the time a return is filed and implement processes to reverse the advance payment so these individuals can receive the RRC on their Tax Year 2021 tax return.

**Management's Response:** The IRS agreed with this recommendation and plans to continue its ongoing efforts with the BFS to reverse any debit card that has been returned or canceled by the recipient, and to issue the appropriate RRC.

### **Manual Error Resolution Processes Caused Extended Delays in Processing Recovery Rebate Credit Claims and Increase the Risk of Employee Error**

As of May 27, 2021, there were 11.2 million returns identified with an RRC error, *i.e.*, a discrepancy between the RRC amount reported on a tax return and what the IRS computed, that must be resolved by an ERS tax examiner. ERS tax examiners resolved 5.6 million returns as of May 27, 2021. Returns identified for ERS review are suspended from processing and refunds are held until the return can be reviewed by an IRS employee. Our review of tax returns corrected by ERS tax examiners as of May 27, 2021, found that the IRS could leverage its computer programming to more efficiently resolve RRC claims identified for error processing. Our analysis of the 5.6 million returns resolved found that tax examiners accepted the computer calculated RRC amount<sup>19</sup> for more than 5.5 million (98.6 percent) of the resolved returns.

We shared our observations with IRS management and recommended they establish processes to systemically adjust RRC claims using the IRS's computer-calculated RRC calculation when there is a discrepancy between the amount taxpayers reported on their return and the IRS's RRC calculation. IRS management informed us that ERS tax examiners began using an enhanced keyboard map tool that guides the tax examiner step by step through the verification process and corrects the taxpayer's error by either assigning a math error code, *e.g.*, disallowing the credit, or asking the tax examiner to perform manual computation when applicable. We observed the enhanced keyboard map tool and found that while the tool reduces the risk of employee error when verifying RRC claims, it still requires a tax examiner to manually correct each tax return. As of September 2, 2021, 512,132 returns with an RRC error code remained in ERS inventory.

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<sup>19</sup> The amount of allowable RRC calculated by IRS computer programming.

**Recommendation 22 (E-Mail Alert):** We alerted the Commissioner, Wage and Investment Division, of our concerns that the IRS was unnecessarily burdening taxpayers whose RRC claims were identified for manual ERS review. We recommended the IRS develop processes to systemically adjust RRC claims using the computer-generated RRC calculation.

**Management's Response:** IRS management initially disagreed with our recommendation. However, IRS management later informed us that they developed an automated tool that evaluates Tax Year 2021 electronically filed returns that are identified for manual review by the ERS. The tool analyzes the returns, identifies and resolves those that meet the tool criteria, and releases the return to complete processing.

## Appendix I

### Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the processing of RRC claims during the 2021 Filing Season, including ensuring that taxpayers are properly reconciling advanced EIPs received during Calendar Year 2020. To accomplish our objective, we:

- Ensured that Tax Year 2020 tax returns with claims for the RRC were processed correctly.
- Ensured the RRC computed by the IRS was accurate.
- Ensured that eligible individuals who did not receive their advance stimulus payment received the correct RRC amounts.
- Identified and quantified erroneous RRCs issued due to dependent-related statuses.

### **Performance of This Review**

This review was performed with information obtained from the Large Business and International Division in Washington D.C.; the Wage and Investment Division Headquarters and Return Integrity and Compliance Services function in Atlanta, Georgia; and the Wage and Investment Division Submission Processing function office in Covington, Kentucky, during the period March through December 2021. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services); Deann L. Baiza, Director; Ngan B. Tang, Audit Manager; Brieane K. Hamaoka, Senior Auditor; Jane G. Lee, Senior Auditor; Michael J. Bibler, Auditor; and Tracy L. Winfield, Auditor.

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

During this review, we obtained extracts from the Entity Individual Master File; Generalize Mainline Framework, Error Resolution files for Tax Year 2020; Individual Master File for Tax Year 2020; Individual Return Transaction File for Processing Years 2019, 2020, and 2021; Information Returns Master File for Tax Years 2019 and 2020; Individual Master File Refund Files; and the National Account Profile for Processing Years 2020 and 2021 that were available on the Treasury Inspector General for Tax Administration Data Center Warehouse. We also obtained data from the IRS which detailed the specific individuals who were issued an EIP by a U.S. Territory from January 1, 2021, through June 30, 2021. Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected random samples<sup>1</sup> of each extract and verified that the data in the extracts were the same as the

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<sup>1</sup> We used a random number generator to select our samples for use in determining whether the extract information could be relied upon in conducting our testing.



data captured in the Integrated Data Retrieval System. We also performed analysis to ensure the validity and reasonableness of our data, such as ranges of dollar values and obvious invalid values. Based on the results of our tests, we believe that the data used in our review were reliable.

### **Internal Controls Methodology**

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



## 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:**

- Taxpayer Rights and Entitlements – Potential; 11,781 individuals were allowed \$15.2 million less in the RRCs than they were entitled due to a programming error involving returns in which the taxpayer claimed a Married Filing Separate status (see Recommendation 1).

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

We obtained extracts from the Generalize Mainline Framework, Error Resolution files for Tax Year 2020; the Individual Return Transaction File for Processing Year 2021 as of May 27, 2021; and the National Account Profile for Processing Year 2021 as of June 10, 2021.

Our computer analysis of tax returns that were processed as of May 27, 2021, identified 11,797 returns involving programming errors, which incorrectly included EIPs issued to a taxpayer's spouse in the calculation of the taxpayer's allowable RRC on a Married Filing Separate return. This error allowed \$15,248,540 less in the RRCs than the taxpayers were entitled. To be conservative, we removed duplicate tax returns and returns that appeared in multiple error populations to arrive at 11,781 individuals who were incorrectly allowed \$15,237,936 less in RRCs than entitled.

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

- Cost Savings (Funds Put to Better Use) – Potential; 483 individuals allowed \$406,407 in the RRCs due to programming/timing issues from the simultaneous processing of tax returns and posting of returned advance payments (see Recommendation 2).

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

We obtained extracts from the Entity Individual Master File; the Individual Return Transaction File for Processing Year 2021 as of May 27, 2021; and the National Account Profile for Processing Year 2021 as of June 10, 2021.

Our computer analysis of tax returns that were processed as of May 27, 2021, identified 488 returns with programming/timing issues due to the simultaneous processing of tax returns and posting of returned advance payments that allowed \$412,507 more in the RRCs. To be conservative, we removed duplicate tax returns and returns that appeared in multiple populations to arrive at 483 individuals who were incorrectly allowed \$406,407 in the RRCs.

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

- Taxpayer Rights and Entitlements – Potential; 2,322 individuals were allowed \$1.9 million less in the RRCs than entitled due to programming/timing issues from the simultaneous

processing of tax returns and posting of returned advance payments (see Recommendation 2).

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

We obtained extracts from the Entity Individual Master File; the Individual Return Transaction File for Processing Year 2021 as of May 27, 2021; and the National Account Profile for Processing Year 2021 as of June 10, 2021.

Our computer analysis of tax returns that were processed as of May 27, 2021, identified 2,328 returns with programming/timing issues due to the simultaneous processing of tax returns and posting of returned advance payments that allowed \$1,911,752 less in the RRCs. To be conservative, we removed duplicate tax returns and returns that appeared in multiple populations to arrive at 2,322 individuals who were incorrectly allowed \$1,901,852 less in the RRCs than entitled.

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

- Cost Savings (Funds Put to Better Use) – Potential; seven individuals were incorrectly allowed \$62,600 in the RRCs due to programming and specific dollar tolerance related to fraud filters (see Recommendation 4).

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

We obtained extracts from the Entity Individual Master File; the Individual Master File for Tax Year 2020; the Individual Return Transaction File for Processing Year 2021 as of May 27, 2021; the Information Returns Master File for Tax Years 2019 and 2020; and the National Account Profile for Processing Year 2021 as of June 10, 2021. In addition, we obtained data from the IRS's Return Integrity and Compliance Service.

Our computer analysis of tax returns received before March 16, 2021, identified 7,478 returns in which programming and specific dollar tolerance issues allowed \$29,376,058 more in the RRCs. To be conservative, we removed returns that appeared in multiple populations to arrive at seven individuals who were incorrectly allowed \$62,600 in the RRCs.

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

- Cost Savings (Funds Put to Better Use) – Potential; 116,652 individuals incorrectly allowed \$217.9 million in the RRCs due to ERS tax examiner errors (see Recommendation 3).

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

We obtained extracts from the Generalize Mainline Framework, Error Resolution files for Tax Year 2020; the Individual Return Transaction File for Processing Year 2021 as of May 27, 2021; and the National Account Profile for Processing Year 2021 as of June 10, 2021.

Our computer analysis of tax returns that were processed as of May 27, 2021, identified 116,826 returns in which ERS tax examiners incorrectly allowed more than \$218.2 million in the RRCs. To be conservative, we removed duplicate tax returns and returns that appeared in multiple populations to arrive at 116,652 individuals who were incorrectly allowed \$217,927,531 in the RRCs.

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

- Taxpayer Rights and Entitlements – Potential; 50,161 individuals who received \$62.7 million less in the RRCs than entitled due to ERS tax examiner errors (see Recommendation 3).

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

We obtained extracts from the Generalize Mainline Framework, Error Resolution files for Tax Year 2020; the Individual Return Transaction File for Processing Year 2021 as of May 27, 2021; and the National Account Profile for Processing Year 2021 as of June 10, 2021.

Our computer analysis of tax returns that were processed as of May 27, 2021, identified 50,304 returns in which ERS tax examiners incorrectly calculated \$62.8 million less in the RRCs. To be conservative, we removed duplicate tax returns and returns that appeared in multiple populations to arrive at 50,161 individuals who received \$62,669,396 less in the RRCs than entitled.

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

- Cost Savings (Funds Put to Better Use) – Potential; 14,475 individuals incorrectly allowed \$25.2 million in the RRCs because the IRS relies on a checkbox to determine if a taxpayer can be claimed as another individual's dependent (see Recommendation 6).

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

We obtained extracts from the Individual Master File for Tax Years 2019 and 2020; the Individual Return Transaction File for Processing Year 2021 as of May 27, 2021; and the National Account Profile for Processing Year 2021 as of June 10, 2021.

Our computer analysis of tax returns that were processed as of May 27, 2021, identified 14,508 returns with the RRCs totaling nearly \$25.2 million in which the individual was claimed as a dependent on someone else's return. To be conservative, we removed duplicate tax returns and returns that appeared in multiple populations to arrive at 14,475 individuals who were allowed \$25,163,596 more in the RRCs than entitled.

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

- Cost Savings (Funds Put to Better Use) – Potential; 236,983 individuals incorrectly allowed \$424.4 million in the RRCs who are potentially a dependent of another taxpayer (see Recommendation 8).

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

We obtained extracts from the Individual Master File for Tax Year 2020; the Individual Return Transaction File for Processing Years 2020 and 2021; the Individual Return Transaction File for Processing Year 2021 as of May 27, 2021; and the National Account Profile for Processing Year 2021 as of June 10, 2021.

Our computer analysis of tax returns that were processed as of May 27, 2021, identified 238,680 returns with the RRCs totaling nearly \$427 million in which the taxpayer is potentially a dependent to another taxpayer. To be conservative, we removed duplicate tax returns and

returns that appeared in multiple populations to arrive at 236,983 individuals who were allowed \$424,407,311 more in the RRCs than entitled.

**Type and Value of Outcome Measure:**

- Cost Savings (Funds Put to Better Use) – Potential; 15,673 individuals incorrectly allowed \$12.9 million in the RRCs due to the IRS not reconciling dependent EIPs (see Recommendation 9).

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

We obtained extracts from the Individual Master File for Tax Years 2019 and 2020; the Individual Return Transaction File for Processing Years 2020 and 2021 as of May 27, 2021; and the National Account Profile for Processing Year 2021 as of June 10, 2021.

Our computer analysis of tax returns that were processed as of May 27, 2021, identified 15,741 individuals with over \$12.9 million more in the RRCs than they are entitled, due to the IRS not reconciling dependent EIPs. To be conservative, we removed duplicate tax returns and returns that appeared in multiple populations to arrive at 15,673 individuals who were allowed \$12,893,660 more in the RRCs than entitled.

**Type and Value of Outcome Measure:**

- Cost Savings (Funds Put to Better Use) – Potential; 6,939 individuals incorrectly allowed \$7.6 million in the RRCs in which qualifying children were claimed for the RRC on more than one tax return (see Recommendation 11).

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

We obtained extracts from the Individual Master File for Tax Years 2019 and 2020; the Individual Return Transaction File for Processing Years 2020 and 2021 as of May 27, 2021; and the National Account Profile for Processing Year 2021 as of June 10, 2021.

Our computer analysis of tax returns that were processed as of May 27, 2021, identified 7,022 returns with the RRCs totaling over \$7.7 million for qualifying children who were claimed on more than one tax return. To be conservative, we removed duplicate tax returns and returns that appeared in multiple populations to arrive at 6,939 individuals who were allowed \$7,644,200 more in the RRCs than entitled.

**Type and Value of Outcome Measure:**

- Cost Savings (Funds Put to Better Use) – Potential; 75,433 individuals incorrectly allowed \$124.7 million in the RRCs because the IRS does not have processes to identify and prevent nonresident aliens from filing Form 1040 (see Recommendation 13).

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

We obtained extracts from the Individual Master File for Tax Year 2020; the Individual Return Transaction File for Processing Year 2021 as of May 27, 2021; the Information Returns Master File for Tax Year 2020; and the National Account Profile for Processing Year 2021 as of June 10, 2021.

Our computer analysis of tax returns that were processed as of May 27, 2021, identified 75,594 returns with the RRCs totaling over \$125 million allowed to potential nonresident aliens. To be conservative, we removed duplicate tax returns and returns that appeared in multiple populations to arrive at 75,433 individuals who potentially were allowed \$124,747,371 more in the RRCs than entitled.

### Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; 3,440 individuals incorrectly allowed \$5.2 million in the RRCs because they appear to have received the RRC from a U.S. Territory (see Recommendation 15).

### Methodology Used to Measure the Reported Benefit:

We obtained extracts from the Individual Master File for Tax Year 2020; the Individual Return Transaction File for Processing Year 2021 as of May 27, 2021; and the National Account Profile for Processing Year 2021 as of June 10, 2021. We also obtained data from the IRS that detail the specific individuals who were issued the RRCs by three U.S. Territories between January and June 2021.

Our computer analysis of tax returns that were processed as of May 27, 2021, identified 3,470 individuals who claimed more than \$5.3 million in the RRCs in which the claims were potentially duplicated because the taxpayers appeared on one of the Territory reports and filed a tax return claiming the RRC with the IRS. To be conservative, we removed duplicate tax returns and returns that appeared in multiple populations to arrive at 3,440 individuals who were allowed \$5,199,082 more in the RRCs than entitled.

**Management's Response:** IRS management disagreed with our outcome measure. IRS management stated that they cannot confirm that the IRS will realize the number or amounts of payments referenced. IRS management stated that the Territories may or may not take actions to recover erroneous RRCs, and they may or may not remit recovered erroneous RRCs to the IRS. In addition, each Territory's ability to recover may be limited by its domestic law. IRS management stated that the Territories are not considered states under the authority of the IRS and the Internal Revenue Code, which defines the term "United States" as only the 50 States and the District of Columbia. For federal tax purposes, the Territories are treated as beyond the physical borders of the United States and are referred to as "possessions". IRS management stated that they do not have the authority to direct the territories to recover erroneous RRCs or require that any amounts collected are reported to the IRS, given that the territories are autonomous tax administrations.

**Office of Audit Comment:** As noted in IRS management's response to Recommendation 15, they have implemented a plan to coordinate with the Territories and share information that will enable the Territories to recover erroneous RRCs to the extent possible. Our outcome measure represents the potential amount of erroneous RRC payments the IRS can recover as a result of its coordination with the Territories. The actual amount of erroneous payments the IRS recovers is dependent on the priority the IRS places on this effort and each Territory's domestic law.

**Type and Value of Outcome Measure:**

- Taxpayer Rights and Entitlements – Potential; 6.9 million individuals are eligible for the RRC but have not filed a tax return (see Recommendation 16).

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

We obtained extracts from the Individual Master File for Tax Year 2020; the Individual Return Transaction File for Processing Year 2021 as of May 27, 2021; and the National Account Profile for Processing Year 2021 as of June 10, 2021.

Our computer analysis of tax returns that were processed as of May 27, 2021, identified 6,889,349 individuals who are potentially eligible for an RRC but have not filed a tax return. Individuals must file a return to claim the RRC even if they normally are not required to file a return.

**Type and Value of Outcome Measure:**

- Taxpayer Rights and Entitlements – Potential; 3.1 million individuals are potentially eligible for the RRC but did not claim the credit on their return (see Recommendations 17 and 18).

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

We obtained extracts from the Individual Master File for Tax Year 2020; the Individual Return Transaction File for Processing Year 2021 as of May 27, 2021; and the National Account Profile for Processing Year 2021 as of June 10, 2021.

Our computer analysis of tax returns that were processed as of May 27, 2021, identified 3,137,640 individuals who are potentially eligible for the RRC, but did not claim the credit on their Tax Year 2020 return. To be conservative, we removed duplicate tax returns and returns that appeared in multiple populations to arrive at 3,137,619 individuals who are potentially eligible for the RRC.

## Appendix III

Recovery Rebate Credit Provisions

## Comparison of Major Provisions of the CARES Act and the CAA

	CARES Act, as amended	CAA
Payment Amount	<p>\$1,200 per eligible individual \$2,400 for married filing joint filers</p> <p>Additional \$500 for each qualifying child, <i>i.e.</i>, dependent child under 17 years of age as defined for the Child Tax Credit.</p>	<p>\$600 per eligible individual \$1,200 for married filing joint filers</p> <p>Additional \$600 for each qualifying child, <i>i.e.</i>, dependent child under 17 years of age as defined for the Child Tax Credit.</p>
Phaseout	<p>Total payment amount phased out by 5% of adjusted gross income over the following thresholds:</p> <p>\$75,000 Single or Married Filing Separate \$112,500 Head of Household \$150,000 Married Filing Joint and Qualifying Widower</p>	<p>Total payment amount phased out by 5% of adjusted gross income over the following thresholds:</p> <p>\$75,000 Single or Married Filing Separate \$112,500 Head of Household \$150,000 Married Filing Joint and Qualifying Widower</p>
Eligibility	<p>Everyone except:</p> <ul style="list-style-type: none"> <li>Nonresident aliens</li> <li>Dependents of other taxpayers</li> <li>Estates and trusts</li> </ul>	<p>Everyone except:</p> <ul style="list-style-type: none"> <li>Nonresident aliens</li> <li>Dependents of other individuals</li> <li>Estates and trusts</li> <li>Individuals who died before January 1, 2020</li> </ul>
Identification Requirements	<p>Individuals and qualifying children<sup>1</sup> must have a valid SSN. To be valid, the SSN must be:</p> <ul style="list-style-type: none"> <li>Authorized to work in the United States</li> <li>Issued before the due date of the applicable tax return.</li> </ul> <p>Joint return filers can receive a payment if at least one individual has a valid SSN. The amount of the payment will be computed for only those individuals and qualifying children who have a valid SSN.</p> <p><u>Military Exception</u> - Married members of the military are eligible for a payment for themselves, their spouse, and their qualifying children if at least one spouse has a valid SSN.</p>	<p>Individuals and qualifying children must have a valid SSN. The definition of a valid SSN is the same as the first direct payment.</p> <p>Joint return filers can receive a payment if at least one individual has a valid SSN. The amount of the payment will be computed for only those individuals and qualifying children who have a valid SSN.</p> <p><u>Military Exception</u> - Same as the first direct payment.</p>
Advance Issuance of Payments	<p><u>Tax Return Filers</u></p> <p>Payments automatically issued based on information from Tax Year 2019 returns or, if unavailable, Tax Year 2018 returns.</p>	<p><u>Tax Return Filers</u></p> <p>Payments automatically issued based on information from Tax Year 2019 returns.</p>

<sup>1</sup> Qualifying Children include children who are adopted or placed for adoption and have an Adoption Taxpayer Identification Number.



## Processing of Recovery Rebate Credit Claims During the 2021 Filing Season

CARES Act, as amended		CAA
	<p><b><u>Individual Not Required to File a Return</u></b></p> <p>The IRS is authorized to use available information to issue payments to individuals who receive Social Security, Railroad Retirement Board, Supplemental Security Income, and Veteran benefits.</p> <p>All other individuals who do not have a tax return filing requirement, including those experiencing homelessness, must file a tax return to receive an advance payment.</p> <p><b><u>Deadline:</u></b> Advance payments cannot be made after December 31, 2020.</p>	<p><b><u>Individuals Not Required to File a Return</u></b></p> <p>The IRS is authorized to use available information and information obtained from the Social Security Administration and Veteran Affairs to issue payments to individuals who receive Social Security, Railroad Retirement Board, Supplemental Security Income, and Veteran benefits.</p> <p>All other individuals who do not have a tax return filing requirement, including those experiencing homelessness, must file a tax return to receive an advance payment.</p> <p><b><u>Deadline:</u></b> Advance payments cannot be made after January 15, 2021.</p>
Offsets	<p><b><u>Advance Payment</u></b></p> <p>Cannot be offset to satisfy unpaid tax debt or other Federal debt except unpaid child support. Garnishment of the advance payment is not addressed.</p> <p><b><u>The RRC</u></b></p> <p>Credits claimed on a Tax Year 2020 return can be offset for unpaid tax debt and other Federal debt.</p>	<p><b><u>Advance Payment</u></b></p> <p>Cannot be offset to satisfy unpaid tax debt or other Federal debt, including unpaid child support. The advance payment is exempt from debt collection actions, such as garnishment or levy, that occur after the payment is issued.</p> <p><b><u>The RRC</u></b></p> <p>Same as the first direct payment.</p>

Source: Treasury Inspector General for Tax Administration review of cited legislation.



## Appendix IV

### Management's Response to the Draft Report



COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

March 28, 2022

MEMORANDUM FOR MICHAEL E. MCKENNEY  
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

Digitally signed by Kenneth C. Corbin  
Date: 2022.03.28 16:46:02 -04'00'

SUBJECT: Draft Audit Report – Processing of Recovery Rebate Credit  
Claims during the 2021 Filing Season (202140621)

Thank you for the opportunity to review and provide comments on the subject draft report. The Coronavirus Aid, Relief, and Economic Security (CARES)<sup>1</sup> Act and the COVID-Related Tax Relief Act (CRTA)<sup>2</sup> authorized the IRS to make an advance payment of the respective Recovery Rebate Credit (RRC), commonly referred to as Economic Impact Payments (EIPs) to eligible individuals. The IRS issued, more than \$400 billion in EIPs under both the CARES Act and the CRTA. By May 2021, we had processed 128 million tax returns, of which 26.3 million claimed \$39.2 billion in RRC. We are pleased that your review of the 26.3 million tax returns claiming an RRC found that the IRS correctly calculated the allowable RRC for 26.1 million, or 99.3 percent, of the returns.

Achieving a 99.3 percent accuracy rate was no small feat. We developed programming for the reconciliation of a single EIP during the 2021 filing season; however, passage of the CRTA on December 27, 2020, required us to issue the second EIP and to quickly change programming to permit reconciliation of both EIPs, which had slight differences in eligibility criteria, before tax year 2020 returns claiming the RRC could be processed. The changes to our processing systems were programmed and implemented with only a two-week delay to the opening of the filing season.

The year-end payment of the second EIP had a significant impact on the number of tax returns that were referred to our Error Resolution System (ERS) for manual review, due to overclaimed amounts of the RRC. Approximately 13 million returns were referred to the ERS for overclaimed RRC. A common error was the second EIP not being deducted from the total credit claimed on the return. The volume of fallout to the ERS exceeded

<sup>1</sup> Pub. L. 116-136, 134 Stat. 281.

<sup>2</sup> Pub. L. 116-260, div. N, title II, subtitle B (Sec. 271-288), Dec. 27, 2020, 134 Stat. 1964

expectations for the reconciliation error; however, it did result in the development of automated solutions for use during the 2021 and 2022 filing seasons.

During 2021, to address the high volume of returns with overclaimed RRC, we developed an automated tool that permitted employees to resolve the errors with a reduced number of keystrokes. For the 2022 filing season, we developed a more advanced tool to evaluate and resolve select error codes systemically, allowing a much faster time for returns to complete processing. We appreciate the assistance provided by the audit team in identifying conditions where programming was not operating as intended, giving us the ability to quickly determine causes and implement corrected programming.

We acknowledge the concerns raised about potentially erroneous payments of the RRC arising from changes in the filing status or household conditions of taxpayers from the tax year on which their EIPs were based to 2020, when the RRC was claimed. The payment of EIPs was tracked according to the primary and/or secondary taxpayer receiving payment, and those payment amounts were used in reconciling RRC claims to our records. To avoid overpayments for qualified children when household conditions changed from one year to another would have required further tracking the payments attributed to each qualifying child. It was not possible to do this with our processing systems. Tracking the payments to each recipient and recognizing the individual qualifying children covered by those payments is a vastly more complex undertaking than the tracking done for processing non-RRC provisions. It was administratively not possible to reconfigure and reprogram our systems to capture this level of detail when issuing the EIPs and when processing RRC claims. We note that, when the third RRC was authorized by the American Rescue Plan Act of 2021<sup>3</sup>, Congress provided more definitive language about duplicate payments by reason of a change in joint return status or dependent status. But when granting regulatory authority to prevent duplicate payments, Congress included the caveat of rules being prescribed “to the maximum extent administratively practicable.” Internal Revenue Code § 6428B(h)(2).

As with the EIPs, the IRS performed extensive outreach to ensure those who may not have received all to which they were entitled as an advance payment were aware that they could claim the RRC. Our outreach was especially directed to reach lower-income, military, veteran, retired, elderly, limited English proficient, and homeless communities. It was intended to raise awareness of the need to file Form 1040, *U.S. Individual Income Tax Return*, to claim the RRC. For taxpayers without a traditional filing requirement who needed to claim the RRC, we included the ability to claim it on the Non-Filer Sign Up Tool, which those individuals could use to submit a simplified return. The simplified return also permitted those eligible to be considered for the Advance Child Tax Credit and/or the third EIP. We updated forms and publications on IRS.gov and provided supplemental information to explain and provide guidance on claiming the RRC. We also leveraged our partnership with the tax software industry to ensure

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<sup>3</sup> Pub. L. 117-2 (March 11, 2021)

awareness of the required entry on line 30 of Form 1040 to claim the RRC and to ensure guidance was included in their software packages and interview style programming.

We disagree with the statement in the report that individuals who do not activate their debit cards containing their EIPs or contact the issuer to return or cancel the card will not be able to obtain their RRC until three years have passed and the card expires. When the first round of EIPs were issued, the Bureau of the Fiscal Service (BFS) introduced the EIP Card (debit card) to expedite payment processing to some taxpayers who did not have banking information on file with IRS or other Federal agencies. Whether activated or not, the funds on the card are available to the individual. It is at their discretion when they choose to activate it. Recognizing that some individuals discarded or lost their cards, the BFS has mailed follow-up reminders to those individuals with un-activated cards, asking them to activate it or to contact the issuer for a replacement. More than 95 percent of the cards issued for all three EIPs have been activated, with more than 11,000 having been activated in the months of November and December 2021. The cards do have a "valid through" date of three years from the month of issue; however, those funds are not lost if the card expires. The individual to whom it was issued merely needs to contact the card issuer to receive a replacement card or a paper check if they opt not to accept the terms of the card agreement.

We disagree with the outcome measure associated with Recommendation 15 – "Cost Savings (Funds Put to Better Use) – Potential; 3,440 individuals incorrectly allowed nearly \$5.2 million in RRCs because they appear to have received the RRC from a U.S. Territory." The IRS cannot confirm that it will realize the number or amounts of payments referenced. The territories may or may not take actions to recover erroneous RRCs, and they may or may not remit recovered erroneous RRCs to the IRS. Each territory's ability to recover may be limited by its domestic law. The territories are not considered states under the authority of the IRS and the Internal Revenue Code, which defines the term "United States" as only the 50 States and the District of Columbia. For federal tax purposes, the territories are treated as beyond the physical borders of the United States and are referred to as "possessions." We do not have the authority to direct the territories to recover erroneous RRCs or require that any amounts collected are reported to the IRS, given that the territories are autonomous tax administrations.

Our responses to your specific recommendations are enclosed. If you have any questions, please contact me, or a member of your staff may contact Dietra D. Grant, Director, Customer Account Services, at 470-639-2782.

Attachment

Attachment

### **Recommendations**

#### **RECOMMENDATION 1 (E-MAIL ALERT)**

On June 15, 2021, we alerted IRS management of our concerns with the systemic calculation of the allowable RRC amount. We recommended IRS management review the returns we identified and provide us with any corrective actions they intended to take.

#### **CORRECTIVE ACTION**

We reviewed the identified returns, confirmed the errors, and implemented programming changes to correct the condition. We will review the affected returns and take appropriate action to correct them.

#### **IMPLEMENTATION DATE**

October 15, 2023

#### **RESPONSIBLE OFFICIAL**

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

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

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

#### **RECOMMENDATION 2 (E-MAIL ALERT)**

On March 19, 2021, we alerted IRS management of our concerns that an incorrect amount of advance payments was being used to calculate the RRC for some taxpayers. We recommended IRS management review the returns we identified and provide us with any corrective actions they intended to take.

#### **CORRECTIVE ACTION**

We determined the incorrect amounts of advance payments were due to timing issues caused when tax returns claiming the Recovery Rebate Credit (RRC) were processed before returned advance payments posted to the taxpayer accounts. Upon posting, the returned payments adjusted the advance payment amounts recorded for the taxpayers. The condition could cause a return to be referred to the Error Resolution System for review and treatment. When the returns were subsequently reviewed by employees, the error condition was revalidated using the current payment information, which included any adjustments made for advance payments that posted after the return had been identified for review. In those cases where the RRC was adjusted before returned payments were recorded, the math error notice sent to the taxpayer(s) informed them of options for notifying the IRS if they disagreed with the adjustment. When taxpayers disagree with math error notices, the disagreed issue is researched, and the account will be corrected if the math error notice was issued in error. With respect to the RRC,



current payment information reflecting subsequently posted returned payments is available to the employee researching the issue. Upon correction, the taxpayer will receive the additional refund to which they are entitled.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 3 (E-MAIL ALERT)**

On April 6, 2021, we alerted IRS management of our concerns regarding ERS tax examiners incorrectly computing the RRC (see management's action in response to Recommendation 1). We recommended the IRS review the returns we identified and take the actions necessary to ensure that these taxpayers receive the amount of RRC they are entitled to receive.

**CORRECTIVE ACTION**

We will review the affected returns and take appropriate action to correct them.

**IMPLEMENTATION DATE**

October 15, 2023

**RESPONSIBLE OFFICIAL**

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

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 4 (E-MAIL ALERT)**

On March 12, 2021, we alerted IRS management of our concerns that some tax returns were not being identified by fraud filters. We recommended IRS management review the returns we identified and associated fraud filters to identify why these returns were not selected and make programming changes as necessary to ensure proper identification of returns with potentially questionable claims.

**CORRECTIVE ACTION**

We reviewed the identified tax returns and confirmed the fraud filters had not selected all returns they should have. Programming updates were implemented on March 18, 2021, to address the issue.

**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

Director, Return Integrity Verification Program Management, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

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

**Recommendations**

The Commissioner, Wage and Investment Division, should:

**RECOMMENDATION 5:**

Conduct analysis to identify Tax Year 2020 RRC claims processed after May 27, 2021, to identify other returns where ERS tax examiners incorrectly calculated the number of allowable dependents and returns that were not reprocessed per IRS guidance after programming was corrected and ensure that these taxpayers receive the correct amount of the RRC.

**CORRECTIVE ACTION**

The review by the Treasury Inspector General for Tax Administration (TIGTA) of 26.3 million returns claiming the RRC found that 99.3 percent had been processed correctly. Reviewing RRC claims processed after May 27, 2021 would require us to divert limited resources where there is only a 0.7 percent projected error rate. As previously stated, there is a process of review and reconsideration available to individuals who believe a correction made to their return during processing is not correct. We proactively communicated with taxpayers about perceived discrepancies and provided information on avenues for resolution. Taxpayers are notified of any changes to the RRC and have the right to reconsideration and appeal if they do not agree with them.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A.

**CORRECTIVE ACTION MONITORING PLAN**

N/A.

**RECOMMENDATION 6**

Review the 14,508 individuals identified where the IRS issued an RRC to an individual who was claimed as a dependent on someone else's tax return but did not check the dependent box and take the actions needed to recover payments that are determined to be erroneous.

**CORRECTIVE ACTION**

Eligibility for the RRC and the amount allowable is determined from the information individuals provide on their tax returns. Each return is signed by the return filer(s), declaring under penalties of perjury that they have examined the return and accompanying schedules and statements, and to the best of their knowledge and belief, they are true, correct, and complete. When individuals fail to indicate they may be claimed as dependents by others, our post processing compliance checks would identify those returns and the returns on which they were claimed by others. Determining who is entitled to claim the dependent and any associated tax benefits is a question of fact that is addressed under deficiency procedures by our compliance functions. These returns are subject to selection for examination as resources allow.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 7**

Conduct analysis of Tax Year 2020 tax returns processed after May 27, 2021, to identify additional individuals who received an RRC and were also claimed as a dependent on someone else's tax return but did not check the dependent box and take the actions needed to recover the RRC payments that are determined to be erroneous.

**CORRECTIVE ACTION**

We note that this condition existed on 14,508 of the 26.3 million returns (0.055 percent) reviewed by the TIGTA. Reviewing these returns processed after May 27, 2021 would require the IRS to divert limited resources to review these returns when such a small portion, five one-hundredths of one percent, are projected to be affected by the issue. Our post-processing compliance checks analyze all returns for instances of dependents claimed on multiple returns and will identify them for potential selection and examination by our compliance functions.

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**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 8**

Review the 238,680 individuals under the age of 25 identified as potential dependents and take the actions needed to recover payments that are determined to be erroneous.

**CORRECTIVE ACTION**

Internal Revenue Code §§ 6428 and 6428A do not have age restrictions or a minimum income amount applicable to dependents previously claimed on 2018 or 2019 returns. The returns we reviewed reported wages and salaries as well as other income. Therefore, the credits allowed on these returns during processing are correct. All returns are subject to examination and if, upon examination, it is found the individuals are the dependents of other taxpayers, the returns will be adjusted accordingly.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 9**

Review the 15,741 individuals identified where the individual incorrectly received an RRC and an EIP for the same qualifying child and take the actions needed to recover RRC payments that are determined to be erroneous.

**CORRECTIVE ACTION**

The returns of individuals who received both an Economic Impact Payment and a RRC for the same qualifying child are subject to a selection for examination by our compliance programs.

**IMPLEMENTATION DATE**

N/A



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**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 10**

Conduct analysis of Tax Year 2020 tax returns processed after May 27, 2021, to identify additional individuals who received an RRC for a qualifying child for which the IRS has already paid an EIP or RRC to someone else and take the actions needed to recover RRC payments that are determined to be erroneous.

**CORRECTIVE ACTION**

The returns of individuals who received both an Economic Impact Payment and a RRC for the same qualifying child are subject to selection for examination by our compliance programs.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 11**

Review the 7,022 individuals identified where the IRS issued multiple RRCs for a qualifying child that was claimed on more than one tax return and take the actions needed to recover payments that are determined to be erroneous.

**CORRECTIVE ACTION**

Eligibility for the RRC and the amount allowable is determined from the information individuals provide on their tax returns. Each return is signed by the return filer(s), declaring under penalties of perjury that they have examined the return and accompanying schedules and statements, and to the best of their knowledge and belief, they are true, correct, and complete. When qualifying children are claimed on more than one return for the same tax year, our post processing compliance checks will identify those returns. Determining who is entitled to claim the qualifying child and any associated tax benefits is a question of fact that is addressed under deficiency procedures by our compliance functions. These returns are subject to selection for examination as resources allow.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 12**

Conduct analysis of Tax Year 2020 tax returns processed after May 27, 2021, to identify additional individuals who received an RRC for a qualifying child who was claimed on more than one tax return and take the actions needed to recover payments that are determined to be erroneous.

**CORRECTIVE ACTION**

Eligibility for the RRC and the amount allowable is determined from the information individuals provide on their tax returns. Each return is signed by the return filer(s), declaring under penalties of perjury that they have examined the return and accompanying schedules and statements, and to the best of their knowledge and belief, they are true, correct, and complete. When qualifying children are claimed on more than one return for the same tax year, our post processing compliance checks will identify those returns. Determining who is entitled to claim the qualifying child and any associated tax benefits is a question of fact that is addressed under deficiency procedures by our compliance functions. These returns are subject to selection for examination as resources allow.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 13**

Review the 75,594 tax returns identified where the individual is potentially a nonresident alien and take the actions needed to recover the RRC payments that are determined to be erroneous.

**CORRECTIVE ACTION**

We disagree with TIGTA's methodology to identify taxpayers who were potentially non-resident aliens. The exemption from employer withholding of Federal Insurance

Contributions Act (FICA) taxes is not a proxy for an individual's status as a resident alien or a nonresident alien. There are exceptions in which a valid foreign person could be considered a resident alien and not subject to FICA tax. Determining resident status is a question of fact that must be addressed under deficiency procedures by our compliance functions. These returns are subject to selection for examination as resources allow.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 14**

Perform analysis of Tax Year 2020 tax returns filed after May 27, 2021, to identify additional tax returns with the same characteristics as those the IRS determined were filed by a nonresident alien and take the actions needed to recover erroneous RRC payments.

**CORRECTIVE ACTION**

Determining resident status is a question of fact that must be addressed under deficiency procedures by our compliance functions. These returns are subject to selection for examination as resources allow.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**Recommendation**

**RECOMMENDATION 15:**

The Commissioner, Wage and Investment Division, should coordinate with the territories to confirm and recover erroneous RRCs.

**CORRECTIVE ACTION:**

The IRS has implemented a plan to coordinate with the territories and share information that will enable the territories to recover erroneous RRCs issued by the territories, to the extent permitted under the relevant territory's domestic law. The IRS does not have the authority, however, to direct the territories to recover erroneous RRCs or to confirm that any amounts recovered are reported to the IRS, given that the territories are autonomous tax administrations.

**IMPLEMENTATION DATE:**

Implemented.

**RESPONSIBLE OFFICIAL(S):**

Director, Treaty and Transfer Pricing Operations Practice Area, Large Business and International Division

**Recommendations**

The Commissioner, Wage and Investment Division, should:

**RECOMMENDATION 16**

Review the nearly 6.9 million potentially eligible individuals we provided to the IRS who had not filed a Tax Year 2020 tax return as of May 27, 2021, and send a letter to those individuals who still have not filed a Tax Year 2020 return to encourage them to file a return and claim the RRC if eligible.

**CORRECTIVE ACTION**

Taxpayers are not required to claim the RRC. The IRS has widely communicated the need to file the 2020 tax return to claim the credit based on current household circumstances

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 17**

Review the 3.1 million eligible individuals we identified who filed a Tax Year 2020 return and proactively issue these taxpayers their credit.

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**CORRECTIVE ACTION**

Taxpayers are not required to claim the RRC. The IRS has widely communicated the availability of the credit based on 2020 eligibility.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 18**

Conduct additional analysis to identify tax returns filed after May 27, 2021, where an individual is eligible for the RRC based on their Tax Year 2020 tax return and did not claim the credit, and proactively issue the taxpayer their credit.

**CORRECTIVE ACTION**

Eligible taxpayers received the RRC when it was claimed; however, taxpayers are not required to claim it. The IRS has widely communicated the availability of the credit based on 2020 eligibility. ,

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 19**

If IRS management does not proactively issue the RRC to individuals who filed a return and did not claim the credit, the IRS should notify these individuals that they are eligible to claim the RRC and should file an amended tax return to claim the credit.

**CORRECTIVE ACTION**

The IRS has widely communicated the availability of the RRC based on 2020 eligibility. Extensive outreach was performed through the posting of Frequently Asked Questions on IRS.gov, press releases, social media postings, targeted outreach to low-income and other disadvantaged populations, and through partnerships with other government agencies and community organizations.

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**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A

**RECOMMENDATION 20**

Work with the BFS to ensure that individuals who were denied the RRC and have still not activated their EIP1 or EIP2 debit card as of December 31, 2021, have the EIPs reversed in their tax account and are issued their RRC. These processes should include notifying Metabank that the debit cards in question are to be cancelled.

**CORRECTIVE ACTION**

The IRS will continue its on-going efforts with the Bureau of the Fiscal Service (BFS) to reverse any debit card that has been returned or canceled by the recipient, and to issue the appropriate RRC.

**IMPLEMENTATION DATE**

Implemented.

**RESPONSIBLE OFFICIAL**

Director, Customer Account Services, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 21**

Work with the BFS to obtain recurring data during Processing Year 2022 to identify individuals who have not activated their advance ARPA RRC debit card at the time a return is filed and implement processes to reverse the advance payment so these individuals can receive the RRC on their Tax Year 2021 tax return.

**CORRECTIVE ACTION**

The IRS will continue its on-going efforts with the BFS to reverse any debit card that has been returned or canceled by the recipient, and to issue the appropriate RRC.

**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

Director, Customer Account Services, Wage and Investment

**CORRECTIVE ACTION MONITORING PLAN**

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

**Recommendation**

**RECOMMENDATION 22 (E-MAIL ALERT)**

We alerted the Commissioner, Wage and Investment Division, of our concerns that the IRS was unnecessarily burdening taxpayers whose RRC claims were identified for manual ERS review. We recommended the IRS develop processes to systemically adjust RRC claims using the computer generated RRC calculation.

**CORRECTIVE ACTION**

For the 2022 filing season, an automated tool was developed that evaluates tax year 2021 electronically filed returns that are identified for manual review by the Error Resolution System. The tool analyzes the returns, identifies and resolves those that meet the tool criteria, and releases the return to complete processing.

**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

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

**CORRECTIVE ACTION MONITORING PLAN**

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



## Appendix V

### Glossary of Terms

Term	Definition
Individual Master File	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	Individual Taxpayer Identification Numbers are issued by the IRS to individuals who are required to have a Taxpayer Identification Number for Federal tax purposes but do not have and are not eligible to receive 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.
National Account Profile	A compilation of selected entity data from various IRS Master Files and the Social Security Administration.
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.

## Appendix VI

### Abbreviations

ARPA	American Rescue Plan Act
BFS	Bureau of the Fiscal Service
CAA	Consolidated Appropriations Act, 2021
CARES	Coronavirus Aid, Relief, and Economic Security
EIP	Economic Impact Payment
ERS	Error Resolution Function
FICA	Federal Insurance Contributions Act
IRS	Internal Revenue Service
RRC	Recovery Rebate Credit
SSN	Social Security Number
TIN	Taxpayer Identification Number



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