TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Results of the 2015 Filing Season

August 31, 2015

Reference Number: 2015-40-080

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RESULTS OF THE 2015 FILING SEASON

Highlights

Final Report issued on August 31, 2015

Highlights of Reference Number: 2015-40-080 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The filing season, defined as the period from January 1 through mid-April, is critical for the IRS because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific laws or filing procedures. As of May 8, 2015, the IRS received more than 137.3 million tax returns (with over 87 percent electronically filed) and issued more than 100.3 million refunds totaling almost $271 billion.

WHY TIGTA DID THE AUDIT

The objective of this review was to evaluate whether the IRS timely and accurately processed individual paper and electronically filed tax returns during the 2015 Filing Season.

WHAT TIGTA FOUND

Prior to the start of this filing season, the IRS was challenged by the late enactment of tax provisions that were set to expire. To reduce the impact on the filing season, the IRS monitored the status of the extender legislation and took steps prior to its enactment to prepare for the extension of these provisions. These efforts enabled the IRS to begin accepting and processing individual tax returns on January 20, 2015, as scheduled.

TIGTA's review of eight key extended tax provisions found errors in IRS processes that resulted in the incorrect disallowance of approximately $54,000 in educator expense deductions and $1.5 million in residential energy credits. This resulted from incorrect educator expense procedures used by tax examiners and a computer programming error as well as tax examiners not following procedures when working residential energy credit claims.

The IRS expanded its efforts to detect tax refund fraud. As of May 2, 2015, the IRS reported that it identified 163,087 tax returns with more than $908.3 million claimed in fraudulent refunds and prevented the issuance of approximately $787 million (86.6 percent) in fraudulent refunds. In addition, the IRS reported that expanded use of controls to identify fraudulent refund claims before they are accepted into the processing system identified approximately 77,000 fraudulent electronically filed tax returns and approximately 16,000 fraudulent paper tax returns as of April 30, 2015.

The number of tax return preparers who do not provide the required due diligence form when filing an Earned Income Tax Credit claim continues to decline. However, the IRS's efforts to limit the number of direct deposits into a single bank account has not prevented preparers from using the split refund option to divert $2.3 million of their clients' refunds into preparer-controlled bank accounts.

Finally, the IRS continues to offer more self-assistance options that taxpayers can access 24 hours a day, seven days a week. However, the number of taxpayers assisted via the telephone drastically declined. As of May 2, 2015, approximately 83.2 million taxpayers contacted the IRS by calling the various Customer Account Services function toll-free telephone assistance lines. IRS assistors have answered approximately 8.3 million calls and provided a 37.6 percent Level of Service with a 23.5 minute Average Speed of Answer.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, revise computer programming to ensure that no more than three direct deposits are made to a single bank account, and that tax returns for which the IRS incorrectly denied taxpayers the educator expense deduction are reviewed to ensure that the individuals receive the tax benefits to which they are entitled.

The IRS agreed with both recommendations and stated that it has revised programing for two of the conditions identified and corrected the affected accounts with educator expense deductions.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 31, 2015

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Results of the 2015 Filing Season
(Audit #201540019)

This report represents the results of our review to evaluate whether the Internal Revenue Service timely and accurately processed individual paper and electronically filed tax returns during the 2015 Filing Season. This audit is included in our Fiscal Year 2015 Annual Audit Plan and addresses the major management challenge of Implementing the Affordable Care Act and Other Tax Law Changes.

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

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

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Abbreviations

ACA	Patient Protection and Affordable Care Act
APTC	Advance Premium Tax Credit
CADE	Customer Account Data Engine
e-file(d), e-filing	Electronically File(d); Electronic Filing
EITC	Earned Income Tax Credit
IRS	Internal Revenue Service
MEC	Minimum Essential Coverage
PTC	Premium Tax Credit
SSN	Social Security Number
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration

Background

The annual tax return filing season[1] is a critical period for the Internal Revenue Service (IRS) because it is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. As of May 8, 2015, the IRS received 137.3 million individual income tax returns. In addition, the IRS provided assistance to millions of taxpayers via the telephone, website, social media, and face-to-face assistance.

One of the challenges the IRS confronts each year in processing tax returns is the implementation of new tax law changes as well as changes resulting from expired tax provisions. Before the filing season begins, the IRS must identify the tax law and administrative changes affecting the upcoming filing season. Once identified, the IRS must revise the various tax forms, instructions, and publications. The IRS must also reprogram its computer systems to ensure that tax returns are accurately processed. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, and result in incorrect taxpayer notices.

Tax law changes affecting the 2015 Filing Season

- ***The Patient Protection and Affordable Care Act (ACA)***[2] – Enacted March 23, 2010, its provisions provide incentives and tax breaks to individuals and small businesses to offset health care expenses. Its provisions also impose penalties, administered through the tax code, for individuals and businesses that do not obtain health care coverage for themselves or their employees. The ACA represents the largest set of tax law changes in more than 20 years and continues to represent a significant challenge to the IRS. The IRS was responsible for implementing two primary provisions of the ACA during the 2015 Filing Season:
  - Minimum Essential Coverage (MEC) and the Shared Responsibility Payment – Taxpayers must report on their tax returns that they and all of their dependents had health coverage during Tax Year 2014 or that they are exempt from the requirement. Taxpayers who did not maintain coverage or were not exempt will be subject to a penalty, referred to as the shared responsibility payment, for each individual for whom coverage was not maintained. Taxpayers who maintained coverage for themselves and their dependents will check a box on Form 1040, *U.S. Individual Income Tax Return*. Taxpayers who are exempt or who have one or more exempt dependents are required to complete Form 8965, *Health Coverage Exemptions*.

[1] See Appendix VI for a glossary of terms.
[2] Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

Taxpayers who do not maintain required coverage or have an exemption are required to compute the shared responsibility payment using a worksheet in the Form 8965 instructions and report the payment on Form 1040 as additional tax due.

- Premium Tax Credit (PTC) – The PTC was created to help make health insurance more affordable for moderate-income families by providing assistance in paying for health insurance premiums. Individuals who purchase their health insurance through a Health Insurance Exchange[3] and who meet certain income requirements may be entitled to receive the PTC. Individuals can elect to receive the PTC in advance as monthly payments directly to their health insurance provider as payment for their premium (the Advance PTC (APTC)) or wait and claim the PTC on their annual tax return. All individuals who elect to receive the APTC must file a tax return to reconcile the advance payments to their allowable PTC for the tax year.

- ***Tax Increase Prevention Act of 2014***[4] – Enacted on December 19, 2014, this act extended more than 50 tax provisions that expired at the end of Calendar Year 2013.

The 2015 Filing Season results are being presented as of several dates between April 4 and May 30, 2015, depending on when the data were available. This review was performed with information obtained from the Wage and Investment Division Headquarters located in Atlanta, Georgia; the Wage and Investment Division Submission Processing function offices in Cincinnati, Ohio; and the Information Technology organization Headquarters in Lanham, Maryland. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

[3] The ACA created the Health Insurance Marketplace, also known as the Exchange. The Exchange is where individuals find information about health insurance options, purchase qualified health plans, and obtain help paying premiums (if eligible).
[4] Pub. L. No. 113-295 (H.R. 5771).

Results of Review

Processing Tax Returns

Prior to the start of this filing season, the IRS was challenged by the late enactment of tax provisions that were set to expire. To reduce the impact on the filing season, the IRS monitored the status of the extender legislation and took steps prior to its enactment to prepare for the extension of these provisions. These efforts enabled the IRS to begin accepting and processing individual tax returns on January 20, 2015, as scheduled. In addition, the IRS has the challenge of carrying out its mission with a significantly reduced budget. As of May 8, 2015, the IRS received more than 137.3 million tax returns – more than 120.2 million (87.6 percent) were electronically filed (e-filed) and more than 17 million (12.4 percent) were filed on paper. Taxpayers are e-filing a higher proportion of tax returns than in the 2014 Filing Season. Figure 1 presents comparative filing season statistics as of May 8, 2015.

Figure 1: Comparative Filing Season Statistics (as of May 8, 2015)

Cumulative Filing Season Data	2014 Actual	2015 Actual	% Change
Individual Income Tax Returns			
Total Returns Received (000s)	136,244	137,312	0.78%
Paper Returns Received (000s)	18,841	17,059	-9.46%
E-Filed Returns Accepted (000s)	117,403	120,253	2.43%
Practitioner Prepared (000s)	70,994	71,135	0.20%
Home Computer (000s)	46,409	49,118	5.84%
Free File (000s) *(also in the Home Computer total)*	3,164	2,875	-9.13%
Fillable Forms (000s) *(also in the Home Computer total)*	326	316	-3.00%
Percentage of Returns E-Filed	86.2%	87.6%	1.63%
Refunds			
Total Number Issued (000s)	101,176	100,320	-0.85%
Total $ (in millions)	$272,473	$270,989	-0.54%
Average $	$2,693	$2,701	0.30%
Total Number of Direct Deposits (000s)	80,164	82,029	2.33%
Total Direct Deposit $ (in millions)	$228,537	$236,888	3.65%

Source: Multiple 2015 Filing Season reports. Totals and percentages shown are rounded.
2014 Filing Season figures are through May 9, 2014; 2015 Filing Season figures are through May 8, 2015.

The IRS continues to modernize its filing season applications through the Customer Account Data Engine (CADE) 2 program

The IRS indicated that it continues to modernize its filing season applications in Fiscal Year 2015 under the CADE 2 program. For example, the IRS included additional enhancements to CADE 2 to use consistent computations for penalty and interest in its various systems that use CADE 2 data relating to individual and business accounts when taxes are not received by the due date. These systems include the Integrated Data Retrieval System, Individual Master File, and Business Master File.

Tax return preparers continue to misuse the split refund option to divert a portion of taxpayers' refunds to tax return preparer–controlled bank accounts

Through May 7, 2015, a total of 36,667 individuals requested to convert refunds totaling almost $23.6 million into savings bonds. Additionally, a total of 553,406 taxpayers chose to split tax refunds totaling more than $2.6 billion between two or three different checking and savings accounts. Figure 2 shows a comparison of taxpayers' use of the split refund and savings bond options for Processing Years 2014 and 2015 as of May 7, 2015.

Figure 2: Use of Savings Bonds and Split Refunds for Processing Years 2014 and 2015

Savings Bonds	2014 Actual	2015 Actual
Total Returns	47,071	36,667
Total Refunds to Bonds $ (in millions)	$18.5	$23.6
Split Refunds		
Total Returns	830,269	553,406
Total Refunds Split $ (in millions)	$3,602	$2,649

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of the IRS Individual Return Transaction File as of May 1, 2014, and May 7, 2015. Totals are rounded.

However, our analysis of Form 8888, *Allocation of Refund (Including Savings Bond Purchases)*, continues to identify potential misuse of the split refund option to pay tax return preparers for their services. We identified 44,993 tax returns that requested 46,603 direct deposits totaling more than $13.7 million. The 46,603 direct deposits were made into 3,505 bank accounts associated with 3,192 tax return preparers who filed the tax returns. Of the 46,603 direct deposits, 37,043 were to 3,400 bank accounts associated with tax return preparers who had already received three direct deposits. Form 8888 instructions state that the form is to be used only for the deposit of a tax refund to an account in the taxpayer's name. Taxpayers are not to use Form 8888 to direct a portion of a tax refund to the tax return preparer for payment of services rendered or any other purpose.

We reported this same condition in our 2013 and 2014 Filing Season reports.[5] In response to concerns we raised during the 2014 Filing Season, IRS management stated that as part of its efforts to combat identity theft, the IRS expected to implement a systemic restriction to limit the number of deposits (three) to a single bank account beginning with the 2015 Filing Season. Subsequent refunds will be converted to a paper check and mailed to the taxpayer's last known address.[6] IRS management expected this change would also reduce the number of preparers who inappropriately used Form 8888 to divert their clients' refunds into an account controlled by the preparer.

The IRS implemented the systemic deposit restriction as planned. However, our analysis of the 37,043 direct deposits to the 3,400 bank accounts that had already received three direct deposits found that the IRS did not convert 9,166 deposits (25 percent) totaling more than $2.3 million to paper checks. We notified the IRS of our concerns with the direct deposit limit on June 17, 2015. IRS management agreed with our assessment and responded that computer programming errors resulted in the IRS not properly identifying all direct deposit accounts with multiple deposit requests. According to IRS management, the IRS has corrected two of the three issues and plans to implement computer programming changes to correct the third issue in Calendar Year 2016. TIGTA is conducting an additional review of the direct deposit limit as part of our assessment of the IRS's ongoing efforts to detect and prevent identity theft. We expect to issue our report early next fiscal year.

The number of tax returns filed by paid tax return preparers claiming the Earned Income Tax Credit (EITC) without the due diligence checklist continues to decline

The number of tax returns filed by a paid tax return preparer claiming the EITC without attaching the required completed Form 8867, *Paid Preparer's Earned Income Credit Checklist*, has declined. Figure 3 shows the number of paid tax return preparers we identified as not in compliance with the due diligence rules during the 2013 through 2015 Filing Seasons.

[5] TIGTA, Ref. No. 2013-40-124, *Late Legislation Delayed the Filing of Tax Returns and Issuance of Refunds for the 2013 Filing Season* (Sept. 2013) and TIGTA, Ref. No. 2014-40-077, *Key Tax Provisions Were Implemented Correctly for the 2014 Filing Season* (Sept. 2014).

[6] A taxpayer's last known address is the address on the most recently filed and properly processed tax return unless the taxpayer has clearly and concisely notified the IRS of a change of address.

Figure 3: Comparison of Paid Tax Return Preparer Noncompliance With Form 8867 Requirements for the 2013 Through 2015 Filing Seasons (as of May each year)[7]

	2013[8]	2014	2015
Noncompliant Preparers	122,133	29,623	29,952
Number of Tax Returns	708,298	75,346	62,134

Source: TIGTA analysis for the 2013, 2014, and 2015 Filing Seasons.

Beginning with the 2012 Filing Season, paid tax return preparers who prepare a tax return claiming the EITC must include Form 8867 with the tax return or face a $500 due diligence penalty for each return they submit without it. Since enactment of the Form 8867 requirement and the related due diligence penalty, the IRS has worked to educate preparers about the requirement. In addition, the IRS has worked with tax return preparation software developers to include requirements in their software applications that will assist tax return preparers in being compliant with the Form 8867 requirement.

As of May 18, 2015, the IRS had issued penalty letters to 225 tax return preparers who had received a warning letter at the conclusion of the 2013 Filing Season and who filed 10 or more tax returns claiming the EITC during the 2014 Filing Season. These 225 tax return preparers prepared 5,729 tax returns claiming more than $18.7 million in EITCs. Proposed penalties for these 225 preparers total nearly $2.9 million. Tax return preparers had 30 calendar days to respond to the penalty letter and request an Appeals hearing. The IRS is currently in various stages of reviewing and analyzing the responses to the penalty proposals. According to the IRS, $151,500 in penalties have been assessed.

EITC claims filed with a Form 8867 are more accurate than claims without a Form 8867

Analysis of EITC claims filed during the 2012 through 2015 Filing Seasons identified that claims filed by preparers with the Form 8867 have fewer processing errors (*e.g.*, mathematical errors, invalid EITC qualifying child Social Security Number (SSN), *etc.*) when compared to claims filed by preparers without the required Form 8867. We found that as of May 7, 2015, the IRS identified processing errors on 6.8 percent of EITC claims that were filed by a preparer without a Form 8867 compared to only 0.2 percent of EITC claims filed with a Form 8867.[9] Figure 4

[7] The 2013 Filing Season is as of the week ending May 2, 2013; the 2014 Filing Season is as of the week ending May 1, 2014; and the 2015 Filing Season is as of the week ending May 7, 2015.
[8] According to the IRS, the increase in the number of noncompliant tax return preparers during the 2013 Filing Season was due in part to errors in the software used to prepare tax returns.
[9] These amounts reflect tax returns with a difference of $50 or more between the EITC as claimed by taxpayers and as determined by IRS computers.

shows a comparison of EITC claims filed by preparers with and without a Form 8867 during the 2012 through 2015 Filing Seasons that had an error identified by the IRS during processing.

Figure 4: Percentage of EITC Claims Filed by Preparers With Processing Errors – Filing Seasons 2012 Through 2015
(as of May each year)

Filing Season	Total EITC Claims With a Form 8867			Total EITC Claims Without a Form 8867		
	Total Claims	Claims With Errors	Percent With Errors[10]	Total Claims	EITC Claims With Errors	Percent With Errors[11]
2012	14,323,629	38,693	0.3%	490,986	15,120	3.1%
2013	13,710,702	23,764	0.2%	708,298	7,498	1.1%
2014	13,963,902	21,031	0.2%	75,346	4,509	6.0%
2015	13,714,502	21,562	0.2%	62,134	4,235	6.8%

Source: TIGTA analysis of EITC claims filed during the 2012 through 2015 Filing Seasons.

Key tax provision extensions were implemented accurately

We assessed the accuracy of the IRS's processing of individual tax returns affected by the following eight key extended tax provisions.

- ***Educator Expense Deduction*** – Individuals in the teaching profession are allowed to deduct up to $250 ($500 if filing jointly and both are teachers) for qualified educator expenses.
- ***Tuition and Fees Deduction*** – Individuals can take a deduction for tuition and other qualified educational expenses. For Tax Year 2014, the deduction is limited to $4,000 if the taxpayer's modified adjusted gross income is $65,000 or less ($130,000 if married filing jointly) or $2,000 if it is greater than $65,000 ($130,000 if married filing jointly) but not above $80,000 ($160,000 if married filing jointly). The deduction cannot be claimed if the modified adjusted gross income is above $80,000 ($160,000 if married filing jointly).
- ***Nonbusiness Energy Property Credit*** – Individuals can take a tax credit of up to $500 for qualified energy efficiency improvements or residential energy property costs. However, the credit must be reduced by any nonbusiness energy property tax credits taken in prior tax years beginning with Tax Year 2006.

10 Percentages are rounded.
11 Percentages are rounded.

- ***State and Local General Sales Taxes Deduction* –** Individuals taking itemized deductions can choose to deduct State and local income or sales taxes as part of their itemized deductions. This is particularly helpful to taxpayers living in States such as Florida or Texas that have no State income tax.
- ***Mortgage Insurance Premium Deduction* –** Individuals can take an itemized deduction for qualified mortgage insurance premiums in connection with home loans for a first or second home. The deduction is limited if a person's adjusted gross income exceeds $100,000 ($50,000 if married filing separately). The deduction cannot be claimed if the adjusted gross income exceeds $109,000 ($54,500 if married filing separately).
- ***Exclusion From Gross Income – Discharge of Indebtedness on Principal Residence* –** Individuals can exclude canceled debt from income if it is qualified principal residence indebtedness. Qualified principal residence indebtedness is any mortgage taken out to buy, build, or substantially improve the individual's main home. The maximum exclusion is $2 million ($1 million if married filing separately).
- ***Tax-Free Distributions From Individual Retirement Plans for Charitable Purposes* –** Individuals age 70½ or older can make tax-free distributions up to $100,000 per tax year from individual retirement arrangements to an eligible charity. To qualify, the funds must be transferred directly by an individual retirement arrangement trustee to the eligible charity.
- ***Increased Expensing for Section 179 Property in Lieu of Depreciation* –** Individuals can continue to elect to expense Section 179 property up to a maximum of $500,000. However, this limit must be reduced by the cost of Section 179 property placed in service during the tax year that exceeds $2 million.

Overall, the IRS made the necessary revisions to its computer programs and accurately updated the forms, instructions, and publications related to these eight tax provisions. However, we did identify that the information contained in Publication 225, *Farmer's Tax Guide*, regarding the extension of the expensing of Section 179 property and the gross income exclusion of cancelled debt from a principal residence were not accurate. For example, the publication incorrectly stated that cancelled debt from a principal residence could not be excluded in Tax Year 2014 despite the exclusion being extended. In addition, the publication also incorrectly stated that the maximum Section 179 expense deduction for property placed into service in Tax Year 2014 is $25,000 (the deduction for Tax Year 2014 is generally $500,000). We notified the IRS on March 11, 2015, of our concerns with the accuracy of information. IRS management indicated that this publication is released annually in October, which was prior to the enactment of the extension. The IRS subsequently updated the information on IRS.gov to reflect the changes to this publication.

Finally, we identified that processes resulted in the IRS incorrectly denying the educator expense deduction as well as incorrectly limiting residential energy credit claims. Specifically:

- ***Educator expense deduction claims were erroneously denied*** – Our analysis of tax returns processed as of May 7, 2015, identified 263 tax returns for which the IRS incorrectly denied educator expense deductions totaling $53,988. This resulted from IRS procedures incorrectly instructing tax examiners to deny the educator expense deduction when the taxpayer indicates that he or she can be claimed as a dependent on someone else's tax return. Our review of the Internal Revenue Code[12] found that taxpayers who can be claimed as a dependent on someone else's tax return are eligible to receive the educator expense deduction.

  We notified the IRS of our concerns on April 2, 2015. The IRS agreed that taxpayers who can be claimed as a dependent on someone else's tax return are eligible to receive the educator expense deduction. In its response, the IRS indicated that it provided updated processing procedures to tax examiners on April 15, 2015.

- ***Residential energy credit claims were incorrectly limited*** – Our analysis of tax returns processed as of April 4, 2015, identified 771 tax returns that claimed a residential energy credit for which it appears the IRS incorrectly limited the claims to $500 or $1,000 (depending on filing status); these taxpayers should have received additional credits totaling $1,518,438.[13] Errors in IRS computer programming incorrectly identified tax returns with a residential energy credit claim of more than $500 for additional review. In addition, IRS employees did not follow proper procedures for working the identified tax returns and instead limited the credit to $500 or $1,000 in error.

  On May 7, 2015, we provided the IRS with the 771 tax returns for which the IRS inappropriately limited the taxpayer's residential energy credit. IRS management agreed that the taxpayer's claims were not processed correctly. The IRS plans to revise its computer programming and clarify its procedures for the 2016 Filing Season. According to the IRS, the 771 tax accounts we identified have been corrected. In addition, IRS management stated that they would follow up as needed to identify and correct the accounts of additional affected taxpayers.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Ensure that all needed computer programming revisions are made prior to the 2016 Filing Season to correctly identify all direct deposit accounts to which more than three direct deposit requests are made so that no more than three direct deposits will be made to a single account.

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[12] I.R.C. § 62(d)(1).

[13] Of these 771 tax returns, 353 returns were for taxpayers filing as married filing jointly (which the IRS limited the credit to $1,000). The credits on the remaining tax returns were limited to $500.

Management's Response: The IRS agreed with this recommendation and stated that two of the three identified programming needs had already been addressed. The third is expected to be completed during Calendar Year 2016.

Recommendation 2: Review the 263 tax returns TIGTA identified for which the IRS incorrectly denied the taxpayer's educator expense deduction and ensure that individuals receive the deduction to which they are entitled.

Management's Response: The IRS agreed with this recommendation and stated that it had already taken action to address and correct the affected accounts.

Implementation of Affordable Care Act Provisions

As of May 7, 2015, the IRS processed more than 2.7 million tax returns on which taxpayers reported more than $8.8 billion in PTCs that were either received in advance or claimed at the time of filing. Figure 5 provides the results of our analysis of the PTCs reported by taxpayers on tax returns processed as of May 7, 2015.

Figure 5: Premium Tax Credit Statistics (as of May 7, 2015)

Total Tax Returns With a PTC	**2,731,513**
Total PTC Amount (includes APTC and PTC)	$8.8 billion
Total APTC Amount	*$8.2 billion*
Total PTC Claimed at Filing in Excess of APTC	*$623.4 million*
Tax Returns on Which the PTC Equals the APTC Received	
Tax Returns	333,414
Total PTC Amount[14]	$770.6 million
Tax Returns With an Additional PTC Amount (taxpayer is entitled to more PTC than what was received in APTC)	
Total Tax Returns	1,085,059
Total PTC Amount (includes APTC and PTC)	$4.4 billion
Total APTC Amount	*$3.8 billion*
Total PTC Claimed at Filing in Excess of the APTC	*$623.4 million*

[14] APTC payments made to insurance issuers for the taxpayer for which the APTC payments equal the allowable PTC.

Tax Returns With Excess APTC Payments (taxpayer received more APTC than PTC to which he or she was entitled and has to repay)	
Total Tax Returns	1,313,040
Total APTC Amount	$3.6 billion
Total APTC Reported in Excess of the PTC	$1.4 billion
Total APTC Above the Repayment Limit (not repaid)	*$434.2 million*
Total APTC Below the Repayment Limit (repaid)	*$968.6 million*

Source: TIGTA analysis of individual tax returns processed as of May 7, 2015. Totals and percentages shown are rounded.

TIGTA is conducting a separate review of the accuracy of the IRS's verification of PTC claims. The Consolidated and Further Continuing Appropriations Act of 2015[15] required a report to be issued by June 1, 2015, on the IRS's reconciliation of APTCs paid to taxpayers and the Department of Health and Human Services use of IRS information to reduce fraud and overpayments. This report provided interim results relating to IRS processing of PTC claims.[16] We will issue a report with our final assessment of the IRS's verification of PTC claims later this calendar year. Our final report will detail results of our assessment of whether APTC payments are properly reconciled and whether the amount of PTCs computed by the IRS is correct.

MEC and shared responsibility payment requirements

As of May 7, 2015, the IRS received more than 96.8 million tax returns reporting that all members of the taxpayer's family maintained MEC as required. The IRS received more than 10.8 million tax returns with a Form 8965 attached indicating that at least one taxpayer on the tax return is exempt from the MEC requirement. In addition, more than 6.7 million tax returns reported shared responsibility payments totaling more than $1.3 billion for not maintaining required coverage.[17]

In March 2015, we reported that the IRS has not developed processes and procedures to verify individuals' compliance with MEC requirements during the 2015 Filing Season.[18] On July 9, 2013, the Department of the Treasury granted employers and health insurers transition relief from the Form 1095-B, *Health Coverage*, and Form 1095-C, *Employer-Provided Health Insurance Offer and Coverage*, filing requirements. These forms provide the IRS with

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[15] Pub. L. No. 113-235 (2014).
[16] TIGTA, Ref. No. 2015-43-057, *Affordable Care Act: Interim Results of the Internal Revenue Service Verification of Premium Tax Credit Claims* (May 2015).
[17] An additional 26,242 tax returns reported shared responsibility payments of more than $4.5 million and also indicated that the MEC was maintained.
[18] TIGTA, Ref. No. 2015-43-030, *Affordable Care Act: Assessment of Internal Revenue Service Preparations to Ensure Compliance With Minimum Essential Coverage and Shared Responsibility Payment Requirements* (March 2015).

information for individuals who were offered MEC by their employer or were covered by MEC. Under the transition relief, the filing deadline for paper Forms 1095-B and 1095-C was delayed from February 28, 2015, to February 29, 2016, and for e-filed Forms 1095-B and 1095-C was delayed from March 31, 2015, to March 31, 2016.

IRS management indicated that a business decision was made to not develop processes and procedures because the receipt of required insurer (Form 1095-B) and employer (Form 1095-C) information reports have been delayed. However, the IRS plans to use information obtained during the 2015 Filing Season to develop post-processing compliance strategies to be used in future years. TIGTA will continue to evaluate the IRS's verification of individuals' compliance with the MEC requirements, including the verification of MEC exemptions.

Detecting and Preventing Tax Refund Fraud

As of May 2, 2015, the IRS reported that it identified 163,087 tax returns with more than $908.3 million claimed in fraudulent refunds and prevented the issuance of approximately $787 million (86.6 percent) of those refunds. Figure 6 shows the number of fraudulent tax returns identified by the IRS for Processing Years 2012 through 2014 as well as the refund amounts that were claimed and stopped.

Figure 6: Fraudulent Returns and Refunds Identified and Stopped in Processing Years 2012 Through 2014

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refunds Identified	Amount of Fraudulent Refunds Stopped
2012	3,422,505	3,110,788	$20,721,203,369	$19,247,812,922
2013	2,556,935	2,360,180	$16,456,632,993	$15,690,434,978
2014	2,180,613	2,066,394	$15,724,424,102	$15,209,859,119

Source: IRS fraudulent tax return statistics for Processing Years 2012 through 2014.

Detection of tax returns involving identity theft

The IRS continues to make significant improvements to its process to detect identity theft. For example, it expanded the number of identity theft filters it uses to identify potentially fraudulent tax returns and prevent the issuance of fraudulent tax refunds from 114 filters during the 2014 Filing Season to 196 filters for the 2015 Filing Season. The identity theft filters incorporate criteria based on characteristics of confirmed identity theft tax returns. These characteristics include amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, and filing history.

Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. The IRS generates a letter to the address that is listed on the return requesting that the taxpayer authenticate their identity within 30 days or their return will not be processed. The letter also informs the individual that they should contact the IRS even if they have not filed a tax return because they may have been a victim of identity theft. This prevents the issuance of many fraudulent tax refunds. As of April 30, 2015, the IRS reported that it identified and confirmed 141,214 fraudulent tax returns and prevented the issuance of nearly $754.5 million in fraudulent tax refunds as a result of the identity theft filters. Figure 7 shows the number of identity theft tax returns the IRS identified and confirmed as fraudulent in Processing Years 2013 through 2015.

Figure 7: Identity Theft Tax Returns Confirmed As Fraudulent in Processing Years 2013 Through 2015 (as of April 30 of each year)

Processing Year	Number of Confirmed Identity Theft Returns
2013	382,398
2014	236,313
2015	141,214

Source: IRS fraudulent tax return statistics for Processing Years 2013 through 2015 as of April 30, 2015.

Overall, the decrease in the number of fraudulent tax refunds resulting from identity theft that the IRS detects and stops is attributable to expanded IRS processes to prevent fraudulent tax returns from entering the tax processing system. For example, as of April 2015, the IRS had locked approximately 28.4 million taxpayer accounts of deceased individuals. The locking of a tax account results in the rejection of an e-filed tax return and prevention of a paper tax return from posting to the Master File if the SSN associated with the locked tax account is used to file a tax return. According to the IRS, as of April 30, 2015, these account locks have resulted in the IRS rejecting approximately 77,000 fraudulent e-filed tax returns and preventing approximately 16,000 paper tax returns from posting to the Master File.

In addition, the IRS developed and implemented a clustering filter tool during the 2013 Filing Season. This tool was developed in response to TIGTA's continued identification of large volumes of undetected potentially fraudulent tax returns with tax refunds issued to the same address or deposited into the same bank account. The clustering filter tool groups tax returns based on characteristics that include the address, ZIP code, and bank routing numbers. For the tax returns identified, the IRS applies a set of business rules in an attempt to ensure that legitimate taxpayers are not included. Tax returns identified are held from processing until the

IRS can verify the taxpayer's identity. As of May 2, 2015, the IRS reports that, using this tool, it identified 201,373 tax returns claiming approximately $496.5 million in potentially fraudulent tax refunds.

In an effort to further reduce the issuance of fraudulent tax refunds, the IRS began limiting the number of direct deposit refunds that can be sent to one bank account to three deposits. The IRS will convert the fourth and subsequent direct deposit refund requests to a specific bank account to a paper refund check and mail the check to the taxpayer's address of record.

Screening of prisoner tax returns

As of May 2, 2015, the IRS reports that it identified 44,454 potentially fraudulent tax returns filed by prisoners for screening. Figure 8 shows the number of prisoner tax returns identified for screening in Processing Years 2013 through 2015.

Figure 8: Prisoner Tax Returns Identified for Screening in Processing Years 2013 Through 2015 (as of May 2, 2015)

Processing Year	Number of Prisoner Tax Returns Identified for Screening
2013	69,258
2014	63,087
2015	44,454

Source: IRS fraudulent tax return statistics for Processing Years 2013 through 2015 as of May 2, 2015.

To combat the continuing problem of refund fraud associated with tax returns filed using prisoner SSNs, the IRS compiles a list of prisoners (the Prisoner File) received from the Federal Bureau of Prisons and State Departments of Corrections. Various IRS offices and functions use the Prisoner File in an effort to prevent and detect fraud. The Prisoner File is the cornerstone of the IRS's efforts to prevent the issuance of fraudulent refunds to individuals filing false tax returns using a prisoner SSN.

The Electronic Fraud Detection System is the primary system used by the IRS to identify tax returns filed using prisoner SSNs. The Electronic Fraud Detection System consists of a series of filters the IRS has designed to evaluate tax returns for potential fraud. Tax returns are processed through the Electronic Fraud Detection System, whereby the primary and secondary SSNs listed on the tax return are matched to the Prisoner File to determine if the tax return is filed using a prisoner SSN. If an SSN on a tax return matches a prisoner on the Prisoner File and it is a claim for a refund, a prisoner indicator is assigned to the tax return. Tax returns that are assigned a prisoner indicator and meet specific criteria are evaluated to determine if the tax return is fraudulent. This evaluation includes screening and verifying the wage and withholding information reported on the tax return.

The American Taxpayer Relief Act of 2012,[19] enacted in January 2013, expanded the Secretary of the Treasury's authority to share false prisoner tax return information with Federal and State prisons and gave the IRS permanent authority to share such information. This authority was granted because Congress believes that the ability of the IRS to share information with prison officials will enable prisons to take action to punish prisoners for perpetrating fraud and will help stop the abuse of the tax system. In September 2014, we reported that as of June 2014, the IRS has yet to complete needed agreements to begin sharing information related to false prisoner tax return information with Federal and State prison officials.[20] As of May 2, 2015,****2**** ****************************2********************************* The IRS has completed memorandums of understanding with seven[21] State Departments of Corrections. Thirteen[22] State Departments of Corrections have elected not to participate in this program.

Providing Customer Service

Taxpayers have several options to choose from when they need assistance from the IRS, including telephone assistance through the toll-free telephone lines, face-to-face assistance at the Taxpayer Assistance Centers (TAC) or Volunteer Program sites, and self-assistance through IRS.gov and various other social media channels (*e.g.*, Twitter, Facebook, and YouTube). As a result of continued budget cuts, the IRS is depending even more on technology-based services and external partners. As such, the IRS is directing taxpayers to the most cost-effective IRS or partner channel available to provide the needed service. This allows the IRS to focus limited toll-free and walk-in resources on customer issues that can be best resolved with person-to-person interaction. By using this approach, the IRS believes that it is able to improve its service to taxpayers by addressing and resolving more complex matters such as assistance to identity theft victims and tax account issues. For example, in an effort to continue to redirect taxpayers to online services, the IRS has expanded its online tools available on IRS.gov:

- ***Interactive Tax Assistant –*** is a tax law resource that takes taxpayers through a series of questions and provides them with responses to basic tax law questions. The IRS reports that from January 1 through May 2, 2015, a total of 1,246,983 requests had been completed. This is an 89.5 percent increase over the 658,195 requests that were completed during the same time period last filing season.

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[19] Pub. L. No. 112-240, 126 Stat. 2313.
[20] TIGTA Ref. No. 2014-40-091, *Prisoner Tax Refund Fraud: Delays Continue in Completing Agreements to Share Information With Prisons, and Reports to Congress Are Not Timely or Complete* (Sept. 2014).
[21] **************2***.
[22] ************************************2** **************2*************.

- ***Where's My Refund*** – allows taxpayers to check the status of their refunds using the most up-to-date information available to the IRS. The IRS reports that as of May 2, 2015, there have been almost 209.7 million uses of the tool. This is a 23.8 percent increase over the same time last filing season.

Self-assistance through IRS.gov and social media channels

The IRS continues to offer more self-assistance options that taxpayers can access 24 hours a day, seven days a week. For example, the IRS offers IRS2Go, which is a mobile application that lets taxpayers interact with the IRS using their mobile device to access information and a limited number of IRS tools. In addition, the IRS uses various forms of social media including YouTube, Twitter, Tumblr, and Facebook. As of April 30, 2015, the IRS reported approximately 2.7 million new downloads and updates of its IRS2Go mobile application, for a total of almost 9.2 million since its inception. As of April 30, 2015, there have been 949,028 new views of IRS YouTube videos and a 24 percent increase in Twitter followers, for a total of 105,573 total followers.

Foremost is the IRS's public Internet site, IRS.gov. In the face of a declining budget, the IRS has been actively steering taxpayers to its website as the best source for answers to their tax questions. The IRS reported almost 327.8 million visits to IRS.gov this filing season as of May 9, 2015.

Some self-assistance tools were not timely updated with the most current tax information

Although the IRS is encouraging taxpayers to use the self-assistance options available on its website, not all of the self-assistance tools were updated with the most current tax information before the filing season began. For example, our review of seven Interactive Tax Assistant applications found incorrect information was provided for two:

- ***"Do I Need to File a Tax Return?"*** – This application provided an incorrect base income for two different filing statuses (single taxpayers age 65 or older and head of household taxpayers age 65 or older).

- ***"Can I Deduct My Mortgage-Related Expenses?"*** – This application provides a link to Form 1099-G, *Certain Government Payments*, but the link should be to Form 1098, *Mortgage Interest Statement*.

Additionally, our review of 13 IRS tax topics available on IRS.gov as of February 2, 2015, identified three for which the information provided was not current:

- **Tax Topic 155 – *Forms and Publications – How to Order*** – This tax topic indicates that many high-demand forms and publications can be found at local IRS offices, post offices, and libraries. This tax topic had not been updated to reflect the significantly decreased availability of paper forms and publications in these locations. The IRS revised this tax topic on February 19, 2015, to indicate that only basic forms would be available.

- **Tax Topic 457 – *Tuition and Fees Deduction*** – This tax topic referred taxpayers to IRS Publication 970, *Tax Benefits for Education*, for additional information; however, Publication 970 for Tax Year 2014 was not yet available. The IRS released Publication 970 to taxpayers on February 12, 2015.
- **Tax Topic 704 – *Depreciation*** – This tax topic referred taxpayers to IRS Publication 946, *How to Depreciate Property*, for additional information; however, Publication 946 for Tax Year 2014 was not yet available. The IRS released Publication 946 to taxpayers on March 2, 2015.

We also reviewed 10 YouTube videos and identified similar concerns in which information for two of the videos was not current:

- ***Direct Deposit*** **–** This video had not been updated to reflect the IRS policy change to allow no more than three direct deposit refunds into one bank account.
- ***Gift Tax*** **–** This video referred taxpayers to Publication 559, *Survivors, Executors, and Administrators*, for additional information; however, it was not yet available for Tax Year 2014. The IRS released Publication 559 to taxpayers on March 3, 2015.

We informed the IRS of our concerns with the information contained in some of the self-assistance tools on February 2, 2015. On February 19, 2015, IRS management responded to our concerns, explaining that the Interactive Tax Assistant applications were being corrected and Tax Topic 155 had been updated. The IRS stated that the *Direct Deposit* video was intended to provide introductory information and is not intended to provide all-inclusive information on the subject. For IRS Publications 970, 946, and 559, the IRS stated that they are considered low-usage products, especially early in the filing season, and would be released as soon as possible.

Toll-free telephone assistance

As a result of the budget cuts, the IRS forecasted a 37.1 percent Level of Service for the 2015 Filing Season. As of May 2, 2015, there were approximately 83.2 million attempts to contact the IRS by calling the various customer service toll-free telephone assistance lines seeking help to understand the tax law and meet their tax obligations.[23] IRS assistors have answered approximately 8.3 million calls and have provided a 37.6 percent Level of Service with a 23.5 minute Average Speed of Answer. It should be noted that the Level of Service for the 2014 Filing Season was 70.8 percent. Figure 9 shows a comparison of IRS toll-free telephone statistics through May 2, 2015, for Fiscal Years 2012 through 2015.

[23] The IRS refers to the suite of 29 telephone lines to which taxpayers can make calls as "Customer Account Services Toll-Free."

Figure 9: Toll-Free Filing Season Telephone Statistics for Fiscal Years 2012 Through 2015 as of May 2, 2015

Statistic	Fiscal Year			
	2012	2013	2014	2015
Assistor Calls Answered	14,620,233	15,609,615	11,061,209	8,277,064
Level of Service	67.8%	69.8%	70.8%	37.6%
Average Speed of Answer (Minutes)	16.3	14.1	14.4	23.5

Source: IRS management information reports as of May 2, 2015. TIGTA converted the Average Speed of Answer in the reports from seconds to minutes.

Face-to-face assistance at the TACs

Each year, many taxpayers seek assistance from one of the IRS's 380 walk-in offices, called TACs. However, the IRS estimates that the number of taxpayers it will assist at its TACs will decrease this fiscal year. The IRS assisted more than 5.5 million taxpayers in Fiscal Year 2014 and plans to assist 5.3 million taxpayers in Fiscal Year 2015—a nearly 4 percent decrease. The IRS indicated that budget cuts and its strategy of not offering services at TACs that can be obtained through other service channels, such as the IRS's website, result in the reduction of the number of taxpayers the IRS plans to assist at the TACs. The IRS reports that as of May 2, 2015, a total of 3,297,991 taxpayers were assisted at a TAC. Figure 10 shows the number of contacts by product line at the TACs for Fiscal Years 2012 through 2014.

Figure 10: Contacts for Fiscal Years 2012 Through 2014 (in millions)

Contacts/Product Lines	Fiscal Year		
	2012	2013	2014
Tax Accounts Contacts	4.3	4.4	3.6
Forms Contacts	0.6	0.5	0.4
Other Contacts[24]	1.7	1.5	1.4
Tax Law Contacts	0.2	0.2	0.1
Totals	**6.8**	**6.5**	**5.5**

Source: IRS management information reports. Totals shown are rounded.

[24] Other Contacts includes but is not limited to: Form 2063, *U.S. Departing Alien Income Tax Statement*, date-stamping tax returns brought in by taxpayers, screening taxpayers for eligibility of service, scheduling appointments, and helping taxpayers with general information such as addresses and directions to other IRS offices or other Federal Government agencies.

The IRS also offers Virtual Service Delivery, which integrates video and audio technology to allow taxpayers to see and hear an assistor located at a remote TAC, giving the taxpayers "virtual face-to-face interactions" with assistors. Taxpayers can use this technology to obtain many of the services available at the TACs. The goals for Virtual Service Delivery are to enhance the use of IRS resources, optimize staffing, and balance workload. For the 2015 Filing Season, the IRS is offering Virtual Service Delivery at 34 locations, including 24 TACs and 10 Volunteer Program sites. The IRS reports that as of May 2, 2015, a total of 13,736 taxpayers used this service.

Availability of tax forms and publications

Each year, the IRS makes a number of paper tax forms, instructions, and publications available to taxpayers at locations such as IRS TACs, public libraries, and local post offices. During the 2015 Filing Season, the IRS indicated that taxpayers could obtain 47 commonly used paper tax forms, instructions, and publications from an IRS TAC. In addition, the IRS provided 100 self-service kiosks at 37 TACs that taxpayers can use to print needed tax forms and other information. The IRS also shipped approximately 29.3 million commonly used paper tax forms, instructions, and publications to 9,282 non-IRS locations across the country, such as public libraries and post offices.

Tax preparation assistance at Volunteer Program sites

In Fiscal Year 2014, the IRS discontinued providing assistance with preparing tax returns at its TAC sites. As a result, the Volunteer Program continues to play an increasingly important role in the IRS's efforts to improve taxpayer service and facilitate participation in the tax system. It provides no-cost Federal tax return preparation and e-filing to underserved taxpayer segments, including low-income, elderly, disabled, rural, Native American, and limited-English-proficient taxpayers. As of May 3, 2015, more than 3.6 million tax returns have been prepared at the 12,057 Volunteer Program sites nationwide. Figure 11 shows the number of tax returns prepared by volunteers from Fiscal Years 2012 through 2014.

Figure 11: Volunteer Program Statistics for Fiscal Years 2012 Through 2014

	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Tax Returns	3,264,997	3,406,182	3,646,562
Volunteers	98,978	91,820	93,082
Sites	13,143[25]	13,081	12,319

Source: IRS management information system containing Fiscal Years 2012 through 2014 information.

[25] The Tax Returns and Sites totals do not include tax returns prepared using Facilitated Self-Assistance kiosks.

Accounts Management function over-aged inventory remains high

As of May 30, 2015, the over-aged Accounts Management inventory totaled 876,580. Accounts Management inventory includes but is not limited to responses to taxpayer notices, amended tax returns, identity theft cases, and applications for Individual Taxpayer Identification Numbers and is generally considered over-aged when it has been in inventory for more than 45 calendar days. The inventory also includes certain IRS computer-generated transcripts for internal use that are not created as a result of taxpayer correspondence. Figure 12 provides a comparison of the Accounts Management inventory for Processing Years 2012 through 2015.

Figure 12: Year-to-Date Comparisons of Accounts Management Inventory for Processing Years 2012 Through 2015

	2012 *(as of June 2, 2012)*	**2013** *(as of June 1, 2013)*	**2014** *(as of May 31, 2014)*	**2015** *(as of May 30, 2015)*
Total Inventory	2,480,987	3,448,466	2,624,158	2,425,165
Over-Aged Volume	720,889	911,475	857,788	876,580
Percentage Over-Aged	29.1%	26.4%	32.7%	36.1%

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

According to IRS management, the decrease in available full-time equivalents and the consistent receipt of correspondence has led to increasing over-aged inventories. IRS management stated that their focus in Fiscal Year 2015 has been to reduce inventories at the expense of taxpayer assistance on the toll-free telephone lines. IRS management also indicated that in addition to decreasing resources, the Federal Government shutdown in October 2013 and the shift of resources to the identity theft program negatively affected over-aged inventories and resulted in a ripple effect that may take several years to fully recover from. We have recently initiated a separate review to assess the IRS's processing of correspondence, and we anticipate issuing our report early next fiscal year.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate whether the IRS timely and accurately processed individual paper and e-filed tax returns during the 2015 Filing Season.[1] To achieve this objective, we:

I. Determined if the IRS monitoring systems indicate that individual tax returns are being processed timely and accurately.

   A. Identified volumes of paper and e-filed tax returns received through May 8, 2015, from the IRS Weekly Filing Season reports that provide a year-to-date comparison of scheduled return receipts to actual return receipts. The reports also provide a comparison to Fiscal Year 2014 receipts for the same period.

II. Determined if the IRS has correctly implemented selected tax legislation that affects the processing of individual taxpayer returns during the 2015 Filing Season.

III. Provided statistics related to the IRS's implementation of ACA tax provisions.

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

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

VI. Followed up on findings previously reported by TIGTA.

   A. Determined if the IRS has assessed the due diligence penalty against paid preparers who did not attach Form 8867, *Paid Preparer's Earned Income Credit Checklist*, to tax returns claiming the EITC.

   B. Determined if individuals are still using the split refund option to pay tax return preparers for their services.

   C. Determined if the IRS's efforts to limit the number of direct deposits into a single account to three were not fully successful.

VII. Compiled statistical information that is of interest to external stakeholders.

   A. Determined if individuals have decreased their use of the split refund option for depositing their refunds.

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

B. Determined if individuals decreased their use of the savings bond option for the direct purchase of savings bonds from their refunds.

VIII. Identified results for the TAC Program.

IX. Identified the availability of paper tax forms and publications at non-IRS locations for taxpayers who rely on paper forms and publications.

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

XI. Identified results for the Volunteer Program.

XII. Identified results for the Accounts Management function inventory.

XIII. Identified results for taxpayer self-assistance through IRS.gov.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the process for planning, organizing, directing, and controlling program operations for the 2015 Filing Season. We evaluated these controls by monitoring the IRS weekly production meetings, reviewing IRS procedures, and interviewing IRS management.

Appendix II

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Appendix III

Report Distribution List

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Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; $2,319,892 in direct deposits issued to tax preparers instead of to the individual taxpayers as a result of computer programming errors that prevented 9,166 direct deposits from being converted to a paper refund check (see page 3).

Methodology Used to Measure the Reported Benefit:

We identified 553,406 Tax Year[1] 2014 returns requesting a split direct deposit on Form 8888, *Allocation of Refund (Including Savings Bond Purchases)*, for a total of more than $2.6 billion in refunds. Of these, there were a total of approximately 1.1 million deposits requested to be split into two or more financial accounts. From the 1.1 million deposits, there were 17,918 individual financial accounts that had more than three deposits associated with 152,627 unique deposits. We numbered the 152,627 deposits in consecutive order of their posting within the individual financial account and matched the deposit records to the Master File. This allowed us to identify the first three deposits that posted. We removed the first three deposits and identified the remaining deposits that should have been converted to paper. We performed additional queries to identify the returns that had bank accounts which were associated with paid preparers.

From the identification of deposits that went into a financial account associated with a return prepared by a paid preparer, we found 44,993 tax returns that requested 46,603 direct deposits totaling more than $13.7 million. Of the 46,603 direct deposits, 37,043 went to 3,400 financial accounts associated with tax return preparers who had already received three direct deposits. We then identified 9,166 deposits on 8,444 tax returns for which direct deposits were made and no paper check was issued. Our analysis concludes that the IRS did not convert 9,166 (25 percent) of the 37,043 deposits totaling $2,319,892 to a paper refund check as required.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; $53,988 in educator expense deductions claimed on 263 tax returns that were inappropriately denied by the IRS (see page 3).

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

Methodology Used to Measure the Reported Benefit:

The IRS notified 284 taxpayers that the educator expense deductions taken on their Tax Year 2014 returns were not allowed because the taxpayer can be claimed as a dependent on another individual's income tax return. The maximum deduction is $500 for married taxpayers filing jointly ($250 for each spouse's qualifying expenses).

We determined that the IRS disallowed an adjustment to income of $500 or less for 263 of the 284 Tax Year 2014 returns. While many of these returns had other math errors, none of the other math errors affected adjustments to income. Therefore, the change in the total adjustments to income was due to the disallowance of the educator expense deduction. For each of the 263 tax returns, we calculated the difference between the total adjustments to income per taxpayer with the total adjustments to income amount allowed by the IRS. This calculation included a correction for four taxpayers claiming more than $250 and not filing as married filing jointly. Only $250 of their deduction was included in the total adjustments erroneously disallowed. The total adjustments to income erroneously disallowed were $53,988.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; $1,518,438 in residential energy credits claimed on 771 tax returns that were inappropriately denied by the IRS (see page 3).

Methodology Used to Measure the Reported Benefit:

The residential energy credit claimed on Form 1040, *U.S. Individual Income Tax Return*, is comprised of two tax credits – the nonbusiness property energy credit and the residential energy efficient property credit. The maximum nonbusiness property energy credit that can be claimed is $500 ($1,000 if married filing jointly). The maximum residential energy efficient property credit that can be claimed is generally limited to the taxpayer's tax liability.

We identified 814 Tax Year 2014 returns for which the IRS disallowed all or part of the residential energy credit. Further analysis of the 814 tax returns identified 771 tax returns for which the IRS reduced the taxpayer's residential energy credit claim to either $500 or $1,000 and the total credit claimed by the taxpayer did not exceed their tax liability. Given that the credit limitation applies to the nonbusiness energy property credit and not the residential energy efficient property credit, we estimate that this limit was incorrectly applied to these 771 individual taxpayers and the credit should have been allowed up to the amount of their tax liability. There were 418 tax returns for which credits were reduced to $500. We compared the residential energy credits claimed by the taxpayer with the residential energy credits allowed by the IRS, and the difference totaled $586,101. There were 353 tax returns for which credits were reduced to $1,000. We compared the residential energy credits claimed by the taxpayer with the residential energy credits allowed by the IRS, and the difference totaled $932,337. Overall, the differences totaled $1,518,438 for these 771 tax returns.

Appendix V

Interactive Self-Help Tools and YouTube Videos

Interactive Self-Help Tools Reviewed	IRS YouTube Videos Reviewed
• Do I Need to File a Tax Return? • How Much Can I Deduct for Each Exemption I Claim? • How Much Is My Standard Deduction? • Can I Deduct My Mortgage Related Expenses? • Can I Deduct My Medical and Dental Expenses? • Am I Eligible to Claim an Education Credit? • Do I Have Cancellation of Debt Income on My Personal Residence? • Earned Income Tax Credit (EITC) Assistant • Sales Tax Deduction Calculator • Withholding Calculator • Where's My Refund?	• Medical and Dental Expenses • Do I Have to File a Tax Return? • Gift Tax • IRS Withholding Calculator • Standard Versus Itemized Deductions • Earned Income Tax Credit • Direct Deposit • How to Get 1040 Forms • How to Use the Where's My Refund? Tool • When Will I Get My Refund?

Source: www.YouTube.com *and* www.IRS.gov.

Appendix VI

Glossary of Terms

Term	Definition
Adjusted Gross Income	Gross income minus adjustments to income.
Average Speed of Answer	The average number of seconds taxpayers waited in the assistor queue (on hold) before receiving services.
Business Master File	The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.
Customer Account Data Engine 2	Provides state-of-the-art individual taxpayer account processing and data-centric technologies to improve service to taxpayers and enhance tax administration.
Earned Income Tax Credit	A refundable Federal tax credit for low-income working individuals and families.
Facilitated Self-Assistance	An initiative to provide self-help assistance kiosks at the TACs. The kiosks can be used by taxpayers to access IRS.gov to file their tax returns, print tax forms and publications, or conduct tax research.
Filing Season	The period from January 1 through mid-April when most individual income tax returns are filed.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Free File	A free Federal tax preparation and e-filing program for eligible taxpayers developed through a partnership between the IRS and the Free File Alliance, LLC. The Alliance is a group of private sector tax software companies.
Full-Time Equivalents	A measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Years 2013 and 2014, one full-time equivalent was equal to 2,088 staff hours.

Term	Definition
Health Insurance Exchange	The Health Insurance Exchange – also known as the Health Insurance Marketplace – is the place for people without health insurance to find information about health insurance options and also purchase health insurance.
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 returns it receives.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Level of Service	The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS toll-free telephone lines.
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
Minimum Essential Coverage	Health insurance coverage that contains essential health benefits including emergency services, maternity and newborn care, and preventive and wellness services. MEC also includes doctor visits, hospitalization, mental health services, and prescription drugs.
Premium Tax Credit	A refundable tax credit created by the ACA to assist eligible taxpayers with paying their health insurance premiums.
Processing Year	The calendar year in which the return or document is processed by the IRS.
Shared Responsibility Payment	Beginning with the 2015 Filing Season, if a taxpayer or anyone in the taxpayer's tax household does not have MEC and does not qualify for a coverage exemption, the taxpayer will need to make a shared responsibility payment when filing his or her Federal income tax return.
Submission Processing Site	The data processing arm of the IRS. The sites process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Tax Year	The 12-month period for which tax is calculated. For most individual taxpayers, the tax year is synonymous with the calendar year.

Term	Definition
Taxpayer Assistance Centers	Walk-in sites where taxpayers can receive assistance with their account and tax law questions.
Volunteer Program	Includes the Volunteer Income Tax Assistance Program, including the Volunteer Income Tax Assistance Grant Program and the Tax Counseling for the Elderly Program. The Volunteer Program provides free tax assistance to persons with low to moderate income (generally $53,000 and below), the elderly, persons with disabilities, rural persons, Native Americans, and persons with limited English proficiency.

Appendix VII

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

AUG 1 4 2015

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Debra Holland Debra Holland
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Results of the 2015 Filing Season (Audit #201540019)

Thank you for the opportunity to review and provide comments on the subject draft audit report. We appreciate the Treasury Inspector General for Tax Administration's (TIGTA) recognition of the challenges the IRS faced this year due to enactment in late 2014 of the *Tax Increase Prevention Act of 2014*, and the acknowledgement that our efforts resulted in the IRS being able to begin accepting and processing individual income tax returns on January 20, 2015. During the 2015 Filing Season, we also successfully implemented major components of the *Patient Protection and Affordable Care Act* (ACA), which was the result of many years of planning and preparation activities. We are also pleased that the TIGTA recognizes the significant improvements the IRS has made in the processes to detect and stop tax-related identity theft and refund fraud.

As the filing season began, the IRS had processes in place to ascertain that taxpayers had accurately reconciled the Advance Premium Tax Credit (APTC) paid on their behalf for insurance coverage during 2014. In those cases where the APTC was not reported or not accurately reconciled, processes were in place for suspending those returns and corresponding with taxpayers to obtain missing information and/or forwarding the returns for pre-refund review by our examination functions. Despite early challenges associated with the timely availability of marketplace data, we believe the initial year of processing the APTC reconciliation and Premium Tax Credit (PTC) claims by taxpayers was largely successful. We also note that the reconciliation of APTC and PTC data resulted, in some cases, in the early detection of fraudulent returns filed by identity thieves who did not have access to the APTC or PTC data expected on the tax returns.

Another success this filing season was the implementation of processes to identify requests for the electronic deposit of partial refunds, or split refunds, to bank accounts that had already been designated to receive three or more refund deposits from other taxpayers. During the 2014 Filing Season, the TIGTA reported 564,416 requests were made on Form 8888, *Allocation of Refund (Including Savings Bond Purchases)*, for electronic deposits of partial refunds to 36,337 bank accounts that received three or more refund deposits from different taxpayers[1]. Of those 36,337 accounts, 9,626 were associated with 7,736 paid tax return preparers. In comparison, during the 2015 Filing Season, the number of tax returns requesting partial refund payments to bank accounts receiving three or more deposits from different taxpayers decreased by 92 percent, from 564,416 to 44,993. Of the 46,603 direct deposits associated with those 44,993 tax returns, 37,043 were requests for payments to 3,400 bank accounts that had already received three or more electronic deposits. Of those 37,043 requests for electronic deposit of partial refund payment to accounts already receiving three or more deposits, 27,877 were converted to paper checks and mailed to the taxpayer's address of record. We disagree that the 9,166 deposits that were allowed to continue as electronic deposits were not detected. The deposits were detected; however, processing conditions affecting those tax returns prevented the posting of the account transactions required to convert the electronic payments to paper checks. Those conditions have been identified and have either already been addressed or are in the process of being addressed for the 2016 Filing Season.

We also note that our efforts to address the requirement that tax returns filed by tax return preparers, and claiming the Earned Income Tax Credit (EITC), have an accompanying Form 8867, *Paid Preparer's Earned Income Credit Checklist*, are yielding significant sustained reductions in the number of EITC claims received without the form. During the 2015 Filing Season, only 62,134 EITC returns, out of more than 13.7 million filed, were missing the form. To address those return preparers who were not compliant with the requirement to submit Form 8867 with the tax returns, notices were sent to remind them of the requirement to complete and attach the form, and penalties are assessed against those preparers who continue to omit the form.

During 2015, the IRS has continued to both build on past successes and to explore innovative ways in which the services provided to taxpayers can be delivered in an era of continued budgetary challenges. This year, the IRS continued to feel the effects of reduced staffing, which directly affects the number of employees available to assist taxpayers through telephone and face-to-face services. As with our efforts in previous years, we continue to encourage taxpayers to take advantage of electronic services available through IRS.gov for services such as inquiring on the status of their refunds and making payments on balances due. We have also sought to decrease operating costs by making more printed products available exclusively online via downloads or as e-book products, thus reducing printing and distribution costs that can be reinvested to provide resources where there are more critical needs. One of the more ambitious

[1] TIGTA, Ref. No. 2014-40-077, *Key Tax Provisions Were Implemented Correctly for the 2014 Filing Season* (Sept. 2014).

attempts at improving service has been the piloting of appointment scheduling for taxpayers who have a need for face-to-face service at our Taxpayer Assistance Center locations. With advance scheduling of appointments for taxpayers needing service, the preliminary analysis indicates we have been able to significantly decrease long lines and frustration experienced by taxpayers who experienced lengthy wait times. Based on the success of the pilot, and pending completion of required negotiations with The National Treasury Employees Union, we are expanding the pilot from 44 locations to 190 by the end of Fiscal Year 2016.

Attached are our comments to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Ivy McChesney, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Attachment

Attachment

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1
Ensure that all needed computer programming revisions are made prior to the 2016 Filing Season to correctly identify all direct deposit accounts to which more than three direct deposit requests are made so that no more than three direct deposits will be made to a single account.

CORRECTIVE ACTION
We agree with this recommendation and note that two of the three identified programming needs have already been addressed; with the third expected to be completed during 2016.

IMPLEMENTATION DATE
October 15, 2016

RESPONSIBLE OFFICIAL
Director, Return Integrity and Compliance 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
Review the 263 tax returns TIGTA identified for which the IRS incorrectly denied the taxpayer's educator expense deduction and ensure that individuals receive the deduction to which they are entitled.

CORRECTIVE ACTION
We agree with this recommendation and have already taken action to address and correct the affected accounts.

IMPLEMENTATION DATE
Implemented

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

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.