Results of the 2016 Filing Season

January 31, 2017

Reference Number: 2017-40-014

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

Redaction Legend:
1 = Tax Return/Return Information

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

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

1-800-366-4484

By Web:

www.treasury.gov/tigta/

Or Write:

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

Information you provide is confidential and you may remain anonymous.

HIGHLIGHTS

RESULTS OF THE 2016 FILING SEASON

Highlights

Final Report issued on January 31, 2017

Highlights of Reference Number: 2017-40-014 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 6, 2016, the IRS received 139.6 million individual tax returns (with more than 88 percent electronically filed) and issued more than 101 million refunds totaling almost $277 billion.

WHY TIGTA DID THE AUDIT

The objective of the review was to evaluate whether the IRS timely and accurately processed individual paper and electronically filed tax returns during the 2016 Filing Season.

WHAT TIGTA FOUND

The IRS was challenged by the late passage of legislation that extended a number of expired tax provisions. To reduce the impact on the filing season, the IRS monitored the status of the pending legislation and took steps to implement the extension of those provisions prior to their enactment. These efforts enabled the IRS to begin accepting and processing individual tax returns on January 19, 2016, as scheduled.

TIGTA's review identified that the IRS accurately updated tax publications, forms, and information found on the IRS website and accurately processed individual tax returns involving the implementation of key extender tax provisions. However, TIGTA found that the IRS did not establish adequate processes to ensure that required documentation to support Health Coverage Tax Credit claims was associated and reviewed before processing claims and allowing the credits. Our review also identified that employee errors resulting from the manual processing of these claims further delayed some taxpayer refunds. For example, TIGTA's review of 6,300 electronically filed tax returns and 356 paper tax returns with Health Coverage Tax Credit claims totaling more than $20.8 million that were processed as of April 28, 2016, identified 450 (6.8 percent) returns that had a processing error.

Additionally, the IRS has not implemented computer programming changes to correct Residential Energy Efficient Property Credit processing errors we identified during the 2015 Filing Season. As a result, the IRS incorrectly limited the Residential Energy Efficient Property Credit on 731 tax returns processed as of April 28, 2016, which caused these taxpayers to receive approximately $1.2 million less in credits than they were entitled to receive.

TIGTA also found that computer programming errors are still causing some direct deposits to not convert to a paper check as required. Our analysis of the 86 million deposit requests identified 5,605 deposit attempts totaling approximately $9.2 million that did not convert to a paper check as required.

Furthermore, the number of taxpayers whom the IRS assists at Taxpayer Assistance Centers continues to decrease. The IRS assisted 5.6 million taxpayers in Fiscal Year 2015 and assisted 4.5 million taxpayers in Fiscal Year 2016, a 20 percent decrease. Finally, as of May 7, 2016, the IRS reported that assistors answered 14.1 million calls and provided a 69 percent Level of Service with a 12.2 minute average wait time. The Level of Service for the 2015 Filing Season was 37.7 percent.

WHAT TIGTA RECOMMENDED

TIGTA made four recommendations, including reviewing incorrectly processed Health Coverage Tax Credit and Residential Energy Efficient Property Credit claims identified by TIGTA and implementing necessary computer programming changes related to the Residential Energy Efficient Property Credit.

The IRS agreed with TIGTA's recommendations.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 31, 2017

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Results of the 2016 Filing Season
(Audit # 201640004)

This report presents the results of our review to evaluate whether the Internal Revenue Service (IRS) timely and accurately processed individual paper and electronically filed tax returns during the 2016 Filing Season. This audit is included in our Fiscal Year 2017 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 IRS 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).

Table of Contents

Appendices

Abbreviations

ACA	Affordable Care Act
ACTC	Additional Child Tax Credit
AOTC	American Opportunity Tax Credit
APTC	Advance Premium Tax Credit
ATIN	Adoption Taxpayer Identification Number
CTC	Child Tax Credit
e-file(d), e-filing	Electronically File(d); Electronic Filing
EITC	Earned Income Tax Credit
HCTC	Health Coverage Tax Credit
IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
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 time for the Internal Revenue Service (IRS) as this is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. As of May 6, 2016, the IRS received 139.6 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 continuing challenges the IRS faces each year in processing tax returns is the implementation of new tax law changes and the extension of expired tax provisions. Before the filing season begins, the IRS must identify the tax law and administrative changes affecting the upcoming filing season. Then the IRS must revise applicable tax forms, instructions, and publications. It also must reprogram its computer systems to ensure that tax returns are accurately processed based on changes in the tax law. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, or result in incorrect taxpayer notices.

Tax law changes affecting the 2016 Filing Season

- ***The Patient Protection and Affordable Care Act (ACA)***[2] – Enacted March 23, 2010, this act provides incentives and tax breaks to individuals and small businesses to offset health care expenses. It also imposes penalties for individuals and businesses that do not obtain health care coverage for themselves or their employees. The IRS continued its implementation of two primary provisions of the ACA during the 2016 Filing Season:
  - *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 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.

[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 Internal Revenue Code and 42 U.S.C.), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

- *Minimum Essential Coverage 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 2015 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*. 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.

- ***The Trade Preferences Extension Act of 2015***[3] **–** Enacted June 29, 2015, this act retroactively extended the Health Coverage Tax Credit (HCTC) for Tax Year 2014 and continued the credit through Tax Year 2019.[4] Certain workers who lost their jobs due to foreign trade and who receive benefits through the Trade Adjustment Assistance,[5] Reemployment Trade Adjustment Assistance, or Alternative Trade Adjustment Assistance[6] programs as well as eligible recipients of pensions that are being paid by the Pension Benefit Guaranty Corporation[7] are eligible to receive the HCTC.

  The HCTC allows eligible taxpayers to claim a tax credit of 72.5 percent of qualified health insurance premiums. However, the HCTC is separate from the ACA; as such, the new legislation contains some important modifications that require coordination of this credit with the PTC provisions of the ACA. For example:[8]

  Taxpayer A received $1,000 in APTC during Tax Year 2015. Upon enactment of the Trade Preferences Act, Taxpayer A became eligible for the HCTC and elects to claim the HCTC instead of the PTC on his Tax Year 2015 tax return. When Taxpayer A computes his HCTC, he is allowed to include the $1,000 in APTC as health insurance premiums paid on his behalf to his insurer. However, Taxpayer A must also file Form 8962, Premium Tax Credit, showing that he is no

[3] Pub. L. No. 114-27.
[4] The HCTC originally expired at the end of Calendar Year 2013.
[5] The Trade Adjustment Assistance program is a Federal program that provides a path for employment growth and opportunity through aid to U.S. workers who have lost their jobs as a result of foreign trade.
[6] Alternative Trade Adjustment Assistance and Reemployment Trade Adjustment Assistance programs provide a subsidy for up to two years to reemployed older workers and cover a portion of the difference between a worker's new wage and their old wage.
[7] When an employer cannot continue paying pensions to its retirees, the Pension Benefit Guaranty Corporation may be requested to take over the responsibility of paying pension benefits to the employer's retirees.
[8] The example provided is hypothetical.

longer eligible for the APTC and calculate an APTC repayment amount (i.e., $1,000 in APTC received). This process ensures that the HCTC is computed based on Taxpayer A's total premium cost and that the APTC to which he is no longer entitled is properly reconciled and repaid.

- ***Consolidated Appropriations Act of 2016***[9] – Enacted on December 18, 2015, this act contains the Protecting Americans From Tax Hikes Act of 2015, which extended numerous tax provisions that expired at the end of Tax Year 2014. Many of the provisions were permanently extended, while others were extended for either two or five years. The Protecting Americans From Tax Hikes Act also contains a number of provisions referred to as "program integrity provisions" intended to reduce fraudulent and improper Earned Income Tax Credit (EITC),[10] Child Tax Credit (CTC),[11] Additional CTC (ACTC), and American Opportunity Tax Credit (AOTC)[12] payments. While the majority of the program integrity provisions are not effective until the 2017 Filing Season, two provisions were effective upon enactment:
  - Prevention of retroactive claims for the EITC, CTC/ACTC, and AOTC – Effective for tax returns filed after December 18, 2015. This provision prevents individuals who did not have a valid Individual Taxpayer Identification Number (ITIN), Adoption Taxpayer Identification Number (ATIN), or Social Security Number (SSN) issued on the original due date of a tax return from receiving the EITC, CTC/ACTC, and AOTC by amending an originally filed tax return or filing a previously unfiled prior year tax return once a valid SSN, ITIN, or ATIN is obtained. For example, an individual with an SSN, ITIN or ATIN issued after the due date for a specific tax year's return would not qualify for the EITC, CTC/ACTC, or AOTC claimed on any prior year original or amended tax return filings.
  - Expansion of math error authority for invalid ITINs – Effective for ITINs issued after December 18, 2015, this provision expands the IRS's authority to systemically deny EITC, CTC/ACTC, and AOTC claims filed by an individual whose ITIN has expired,[13] has been revoked,[14] or is otherwise invalid.[15]

The 2016 Filing Season results are being presented as of several dates between March 24 and June 30, 2016, depending on when the data were available. This review was performed with

---

[9] Pub. L. No. 114-113 (H.R. 2029).
[10] The EITC is used to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment.
[11] A tax credit for families with dependent children that is used to reduce the individual income tax burden for families, better recognize the financial responsibilities of raising dependent children, and promote family values.
[12] A partially refundable Federal tax credit used to help parents and college students offset the costs of college.
[13] An ITIN expires when it is not used on a tax return within the last three years. In addition, all ITINs issued before Calendar Year 2013 expire beginning January 1, 2017.
[14] The IRS revokes an ITIN when it determines that the number was issued in error.
[15] An invalid ITIN on a tax return is an ITIN that does not match IRS records.

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, during the period October 2015 through August 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

Processing Tax Returns

The IRS was challenged by the late passage of legislation that extended a number of expired tax provisions. To reduce the impact on the filing season, the IRS monitored the status of the pending legislation and took steps to implement the extension of those provisions prior to their enactment. These efforts enabled the IRS to begin accepting and processing individual tax returns on January 19, 2016, as scheduled. As of May 6, 2016, the IRS received approximately 139.6 million individual tax returns with taxpayers continuing the trend of electronically filing (e-filing) a higher proportion of tax returns than in prior years. Figure 1 presents comparative filing season statistics as of May 6, 2016.

Figure 1: Comparative Filing Season Statistics (as of May 6, 2016)

Cumulative Filing Season Data	2015 Actual	2016 Actual	% Change
Individual Income Tax Returns			
Total Returns Received (000s)	137,312	139,620	1.68%
Paper Returns Received (000s)	17,059	16,219	-4.92%
E-Filed Returns Received (000s)	120,253	123,402	2.62%
Practitioner Prepared (000s)	71,135	71,476	0.48%
Home Computer (000s)	49,118	51,926	5.71%
Free File (000s) *(also in the Home Computer total)*	2,875	2,509	-12.73%
Fillable Forms (000s) *(also in the Home Computer total)*	316	310	-2.12%
Percentage of Returns E-Filed	87.6%	88.4%	0.92%
Refunds			
Total Number Issued (000s)	100,320	101,244	0.92%
Total Dollars (in millions)	$270,989	$276,525	2.04%
Average Dollars	$2,701	$2,731	1.11%
Total Number of Direct Deposits (000s)	82,029	83,669	2.00%
Total Direct Deposit Dollars (in millions)	$236,888	$242,820	2.50%

Source: Multiple 2016 Filing Season reports. Actual amounts were used to calculate the percentage change; therefore, the percentages may not calculate when using the rounded numbers shown in the figure. The 2015 Filing Season figures are through May 8, 2015, and the 2016 Filing Season figures are through May 6, 2016.

Use of the savings bond and split refund options is declining

Through May 5, 2016, a total of 26,097 individuals requested to convert refunds totaling $14.5 million into savings bonds. Additionally, 469,886 taxpayers chose to split tax refunds totaling $2.2 billion between two or three different checking or savings accounts. Figure 2 shows the decline in taxpayer use of the split refund and savings bond options for Processing Years 2015 and 2016 as of May 5, 2016.

Figure 2: Use of Savings Bonds and Split Refunds for Processing Years 2015 and 2016

Savings Bonds	2015 Actual	2016 Actual
Total Returns	36,667	26,097
Total Refund Dollars to Bonds	$23.6 million	$14.5 million
Split Refunds		
Total Returns	553,406	469,886
Total Refund Dollars Split	$2.6 billion	$2.2 billion

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of the IRS Individual Return Transaction File as of May 7, 2015, and May 5, 2016. Totals are rounded.

Key Extender Tax Provisions Were Implemented Accurately

Our review identified that the IRS accurately updated tax publications, forms, and information found on the IRS website and accurately processed individual tax returns involving the implementation of the following key extender tax provisions:

- ***Tuition and Fees Deduction*** – Individuals can take a deduction for tuition and other qualified educational expenses. For Tax Year 2015, 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).
- ***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 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.

Implementation of Affordable Care Act Provisions

As of June 30, 2016, the IRS processed 5.3 million tax returns that reported $20.3 billion in PTCs that were either received in advance or claimed at the time of filing. Figure 3 provides a comparison of PTC statistics for Processing Years 2015 and 2016.

Figure 3: Premium Tax Credit Statistics
Processing Years 2015 and 2016

	Processing Year 2015 as of June 11, 2015	Processing Year 2016 as of June 30, 2016
Total Tax Returns With PTC	**3 million**	**5.3 million**
Total PTC Amount (includes APTC and PTC)	$9.8 billion	$20.3 billion
Total APTC Amount	*$9.1 billion*	*$18.9 billion*
Total PTC Claimed at Filing in Excess of APTC	*$750.5 million*	*$1.4 billion*
Tax Returns Where PTC Equals APTC Received		
Tax Returns	137,207	155,111
Total PTC Amount	$566.4 million	$644.3 million
Tax Returns With Additional PTC – (taxpayer is entitled to more PTC than what was received in APTC)		
Total Tax Returns	1.2 million	2.2 million
Total PTC Amount (includes APTC and PTC)	$4.9 billion	$9.1 billion
Total APTC Amount	*$4.1 billion*	*$7.7 billion*
Total PTC Claimed at Filing in Excess of APTC	*$750.5 million*	*$1.4 billion*
Tax Returns With Excess APTC Payments – (taxpayer receives more APTC than PTC entitled to and has to repay)		
Total Tax Returns	1.6 million	2.9 million
Total PTC Amount	$3.7 billion	$6.8 billion
Total APTC Amount	$5.7 billion	$10.6 billion
Total APTC Reported in Excess of PTC	$1.9 billion	$3.8 billion
Total APTC Above the Repayment Limit (not repaid)	*$652.9 million*	*$1.4 billion*
Total APTC Below the Repayment Limit (repaid)	*$1.3 billion*	*$2.4 billion*

Source: TIGTA analysis of Individual Master File posted tax return information as of June 11, 2015 (Cycle 23) and June 30, 2016 (Cycle 26). Totals do not add due to rounding.

Minimum essential coverage and shared responsibility payment requirements

As of May 5, 2016, approximately 104.7 million taxpayers filed Tax Year 2015 returns reporting that all members of the taxpayer's family maintained minimum essential coverage as required by the ACA. Additionally, 11.2 million taxpayers filed a return with a Form 8965 indicating that at least one taxpayer on the tax return was exempt from the minimum essential coverage requirement. Finally, approximately 5.6 million taxpayers self-reported shared responsibility payments totaling $2.5 billion for not maintaining required coverage. Figure 4 shows a comparison of taxpayers reporting maintaining minimum essential coverage and self-reported shared responsibility payments for Processing Years 2015 and 2016 as of May 5, 2016.

Figure 4: Minimum Essential Coverage and Shared Responsibility Payments – Processing Years 2015 and 2016

	Processing Year 2015	Processing Year 2016	% Change
Returns Reporting All Family Members Have Minimum Essential Coverage	96.8 million	104.7 million	8.2%
Returns Claiming an Exemption From Minimum Essential Coverage	10.8 million	11.2 million	3.7%
Returns Reporting a Shared Responsibility Payment	6.7 million	5.6 million	-16.4%
Amount of Shared Responsibility Payment	$1.3 billion	$2.5 billion	92.3%[16]

Source: TIGTA analysis of individual tax returns processed as of May 5, 2016.

We plan to conduct a separate review to evaluate the IRS's verification of minimum essential coverage, exemption claims, and shared responsibility payments. We anticipate issuing the report in Calendar Year 2017.

Manual Processing of Health Coverage Tax Credit Claims Is Resulting in Potentially Erroneous Claims and Unnecessary Taxpayer Burden

The IRS did not establish adequate processes to ensure that documentation required to support a claim for the HCTC was associated and reviewed before processing claims and allowing the credit. Our review also identified that employee errors resulting from the manual processing of HCTC claims further delayed some taxpayer refunds. As of April 28, 2016, the IRS received 20,437 e-filed returns[17] claiming HCTCs totaling approximately $40.8 million.[18] As of

[16] The shared responsibility payment dramatically increased from Tax Year 2014 to Tax Year 2015. The family maximum for Tax Year 2014 was $285, and it increased to $975 for Tax Year 2015.
[17] Because of system limitations, it is not possible to determine the number of paper returns claiming the HCTC until the IRS processes the return. Additionally, our systemic analysis could not always identify taxpayers filing jointly where both spouses made HCTC claims understating our dollar totals.
[18] **************1***.

April 28, 2016, the IRS completed processing of 5,481 (27 percent) of the 20,437 HCTC e-file claims.

Taxpayers claiming the HCTC are required to attach documentation to their tax return to support their eligibility to claim the credit and provide proof that all required premium payments were made to a qualified health insurance plan. The required documentation includes:

- A letter stating the individual is eligible to claim the HCTC.
- Copies of health insurance premium bills.
- Proof of payment of the premiums.

Individuals who e-file their return can attach the required documentation to their return electronically using a Portable Document Format (PDF) or mail the documentation to the IRS using a Form 8453, *U.S. Individual Income Tax Transmittal for an IRS e-file Return*. When processing claims for the HCTC, internal guidelines instruct IRS employees to determine if the taxpayer has provided adequate supporting documentation for their claim. If adequate support is not provided, guidelines require employees to correspond with the taxpayer to obtain the required support. If the taxpayer still does not provide adequate support, employees are to disallow the HCTC.

Our review of 6,300 e-filed tax returns[19] and 356 paper tax returns with HCTC claims totaling more than $20.8 million that were processed as of April 28, 2016, identified 450 (6.8 percent) returns that had a processing error.[20] Processing errors can result in the allowance of erroneous HCTC claims, taxpayers not receiving the correct amount of HCTC to which they are entitled, or unnecessary delays in taxpayers receiving the refunds due. The following summarizes the errors we identified in the IRS's processing of the HCTC claims:[21]

- 305 tax returns with HCTC claims totaling approximately $441,000 for which IRS employees incorrectly transcribed the HCTC onto another line on the tax return when entering the information into IRS computers. As a result, these tax returns were not subjected to HCTC screening filters designed to identify potentially erroneous claims.
- 111 tax returns with HCTC claims totaling approximately $247,000 for which IRS employees incorrectly entered the amount of the HCTC into the IRS computer system. Most of these errors resulted from employees entering the HCTC amount as dollars and cents into a dollars-only computer field (*i.e., HCTC of $100.00 was entered as $10,000*).

[19] Our analysis of e-filed tax returns included tax returns filed but not yet processed because the IRS must manually review each HCTC claim for validity of the claim before the tax return can be processed.
[20] Our analysis included 356 paper tax returns with HCTC claims processed.
[21] We used multiple processes to assess the IRS's processing of HCTC claims, including a judgmental sample and systemic computer analysis. A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

As a result, the IRS incorrectly froze the taxpayers' allowable refund until the error was corrected.

- 19 tax returns for which the IRS allowed the HCTC without verifying that the taxpayer provided the required supporting documentation or for which the documentation provided did not support the claim. As a result, these taxpayers received approximately $110,000 in HCTC to which they may not have been entitled. Internal guidelines instruct IRS employees to determine if the taxpayer provided adequate support for his or her HCTC claim.
- 8 tax returns for which IRS employees did not follow established procedures to ensure that the required code was input to the taxpayer's account when no HCTC eligibility indicator was present.[22] As a result, the IRS unnecessarily delayed the issuance of refunds totaling approximately $31,000. The IRS has a systemic control to check the tax account of individuals claiming the HCTC to determine if there is an HCTC eligibility indicator. If the code is not input correctly, the tax return will not post to the Master File and the taxpayer's refund will not be issued until the error is corrected.
- 7 tax returns for which the IRS incorrectly corresponded with the taxpayer to obtain the required documentation when the taxpayer had already provided supporting documentation with the tax return or indicated that the documentation had already been mailed using Form 8453. As a result, the IRS unnecessarily delayed the processing of these returns, resulting in taxpayers not timely receiving HCTC claims totaling approximately $78,000. This occurred because internal guidelines did not require employees to perform research to determine if supporting documentation for e-filed returns was mailed with Form 8453 before corresponding to request the documents. It was not until May 3, 2016, that the IRS established a process to determine if the taxpayer submitted Form 8453 with supporting documentation.

We notified IRS management throughout the filing season of our concerns regarding the inaccurate processing of HCTC claims. To address these concerns, IRS management made a number of changes during the filing season, including:

- Establishing processes to suspend e-filed HCTC claims where the taxpayer indicated supporting documents were submitted with a Form 8453. The 20-day suspense period was to verify receipt of the required documentation before corresponding with the taxpayer. Prior to establishing these procedures, the IRS would immediately correspond

[22] The IRS places an HCTC indicator on a taxpayer's tax account when information received from the Pension Benefit Guaranty Corporation indicates that the taxpayer is eligible or when the taxpayer provides a copy of an official letter issued by the Department of Labor, a State workforce agency, or the Pension Benefit Guaranty Corporation that reflected the taxpayer's eligibility.

with the taxpayer to request supporting documentation regardless of whether the taxpayer indicated they had already submitted it via a Form 8453.

- Revising processes for identifying Forms 8453 with HCTC supporting documentation for expedited review. Internal guidelines require IRS personnel in the Austin Submission Processing Site (the site where Forms 8453 and supporting HCTC documentation are to be submitted) to manually identify Forms 8453 with the HCTC box checked. Once identified, IRS personnel review the attachments to determine if the necessary supporting documentation was included. If the required documentation is provided, the tax return is processed at the Austin Submission Processing Site. If not all necessary documentation is attached to the Form 8453, the documentation that was provided is scanned and sent to the IRS Submission Processing Site where the tax return was filed so that employees can correspond with the taxpayer for the missing information.[23]
- Issuing alerts to IRS employees reminding them of the proper procedures for processing HCTC claims and initiating actions to correct the erroneously processed HCTC claims we identified.

In separate reviews, we are continuing our evaluation of the IRS's implementation of the HCTC including assessing its efforts to provide monthly advance payments to eligible individuals.[24] The Trade Preferences Extension Act of 2015 requires the IRS to provide advance payments no later than June 29, 2016. We plan to issue additional reports on the IRS's progress in implementing the HCTC during Calendar Year 2017.

Recommendation

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Review the 450 HCTC claims TIGTA identified as being incorrectly processed to ensure that taxpayers received the HCTCs to which they were entitled and that erroneously issued HCTCs are recovered.

> ***Management's Response:*** The IRS agrees with this recommendation. The IRS has addressed 118 affected returns and will coordinate with other business units, as needed, to review the remaining 332 claims and make necessary corrections to the accounts.

[23] Guidelines also require employees to scan the supporting documentation when all documentation is provided if there are other error conditions on the tax return. The scanned documentation is forwarded to the Submission Processing Site where the return was filed.
[24] TIGTA Audit No. 201640034, *Implementation of Advance Health Coverage Tax Credit Payments*.

Actions Have Not Been Taken to Implement Key Provisions of the Protecting Americans From Tax Hikes Act of 2015

The IRS has not developed processes to systemically identify and disallow EITC, CTC/ACTC, and AOTC claims because it does not have the data needed to determine the issuance date of SSNs and ITINs. As a result, the IRS is not in compliance with the following provisions of the Protecting Americans From Tax Hikes Act:

- Expanded authority to systemically disallow CTC/ACTC and AOTC claims filed by taxpayers with an expired ITIN at the time tax returns are filed. IRS management indicated that processes have not been developed because data is not readily available to identify all ITIN issuance dates. Management explained that prior to January 2014, the IRS did not document the date an ITIN was issued to a taxpayer. The IRS is working to identify the ITIN issuance dates and plans to begin expiring 11 million ITINs in January 2017, including ITINs not used for three consecutive tax years and those issued between Calendar Years 1996 and 2000. The IRS will continue these actions on the remaining ITINs issued prior to Calendar Year 2013 until all such ITINs have been expired. Until these actions occur, the IRS cannot systemically identify and disallow CTC/ACTC and AOTC claimed by taxpayers with expired ITINs. We are conducting a separate review of the IRS's expiration of ITINs and plan to issue our report during Fiscal Year 2017.[25]

- Prevention of retroactive claims for the EITC, CTC/ACTC, and AOTC by individuals who did not have a valid SSN, ITIN, or ATIN on the original due date of the tax return.[26] Individuals whose SSN, ITIN, or ATIN was issued after the original due date of a tax return cannot amend a prior year return or file an original tax return after the return due date to claim the EITC, CTC/ACTC, and AOTC. For example, an individual with an SSN, ITIN, or ATIN issued after the due date for a specific tax year's return would not qualify for ACTC claimed on those prior year tax return filings. Our analysis of tax returns filed during the 2016 Filing Season as of May 5, 2016, identified 658,225 unique Tax Year 2012, 2013, and 2014 tax returns that claimed one or more of these credits. Figure 5 shows the number of prior year tax returns we identified with an SSN and the total amount claimed for the EITC, CTC/ACTC, and AOTC.

---

[25] TIGTA Audit No. 201640023, *Deactivation of Individual Tax Identification Number Program.*

[26] Including due dates extended by Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*.

Figure 5: Prior Year Tax Returns Filed During the 2016 Filing Season With an SSN and an EITC, CTC, ACTC, or AOTC Claim (as of May 5, 2016)[27]

	EITC	Nonrefundable CTC	ACTC	AOTC
Number of Tax Returns	357,611	202,649	156,574	71,527
Dollars Claimed	$528.7 million	$246.5 million	$194.9 million	$110.9 million

Source: TIGTA analysis of individual tax returns processed as of May 5, 2016.

Figure 6 shows the number of prior year tax returns we identified with an ITIN and the total amounts claimed for the EITC, CTC/ACTC, and AOTC.

Figure 6: Prior Year Tax Returns Filed During the 2016 Filing Season With an ITIN and an EITC, CTC, ACTC, or AOTC Claim (as of May 5, 2016)[28]

	EITC	Nonrefundable CTC	ACTC	AOTC
Number of Tax Returns	N/A[29]	26,631	70,546	2,006
Dollars Claimed	N/A	$20.1 million	$110.2 million	$2.2 million

Source: TIGTA analysis of individual tax returns processed as of May 5, 2016.

According to the IRS, it has data needed to identify the issuance date of an ATIN. However, similar information is not available to identify when an SSN or ITIN was issued. The IRS is taking steps to obtain the needed data and is developing processes to identify amended and late-filed prior year EITC, CTC/ACTC, and AOTC claims filed by individuals or for dependents whose SSN, ITIN, or ATIN was not issued before the original due date of the return. The IRS's efforts include:

- Coordinating with the Social Security Administration to obtain the SSN issuance date. IRS management indicated that the Social Security Administration will provide to the IRS, on January 8, 2017, a one-time data extract of SSN issuance dates for all previously

[27] Analysis is based on the primary taxpayer's identification number. The total number of prior year tax returns received does not equal the total taxpayers claiming a credit because a taxpayer can claim more than one credit on a tax return.
[28] Analysis is based on the primary taxpayer's identification number. The total number of prior year tax returns received does not equal the total taxpayers claiming a credit because a taxpayer can claim more than one credit on a tax return.
[29] The law prohibits individuals from claiming the EITC using an ITIN.

issued SSNs. Beginning on January 10, 2017, the Social Security Administration will include the SSN issuance date in weekly updates provided to the IRS.

- Developing processes to estimate the issuance date of ITINs issued prior to January 1, 2014. Prior to January 2014, the computer system the IRS used to issue ITINs did not capture the ITIN issuance date.
- Developing a post-processing compliance strategy for original returns filed in 2016 claiming the EITC, CTC/ACTC, and AOTC by individuals or for dependents whose SSN, ITIN, or ATIN was not issued before the original due date of the return.
- Modifying tax return processing systems to identify amended and late-filed prior year EITC, CTC/ACTC, and AOTC claims filed by individuals or for dependents whose SSN, ITIN, or ATIN was not issued before the original due date of the return.

We are conducting a separate review of the IRS's efforts to implement these Protecting Americans From Tax Hikes Act provisions.[30] We anticipate issuing our report during Calendar Year 2017.

Because Computer Programming Errors Have Not Been Corrected, Some Taxpayers Are Not Receiving the Residential Energy Efficient Property Credits to Which They Are Entitled

The IRS has not implemented computer programming changes to correct Residential Energy Efficient Property Credit processing errors we identified during the 2015 Filing Season. In addition, IRS employees continue to incorrectly work Residential Energy Efficient Property Credit claims. As a result, the IRS incorrectly limited the Residential Energy Efficient Property Credit on 731 tax returns processed as of April 28, 2016, which caused these taxpayers to receive approximately $1.2 million less in credits than they were entitled to receive.

Taxpayers claim both the Residential Energy Efficient Property Credit and Nonbusiness Energy Property Credit on the same "Residential Energy Credits" line on their tax return.[31] IRS computer programming identifies tax returns for additional review when the total Residential Energy Credits claimed are in excess of $500 or $1,000 (depending on filing status). In August 2015, we reported that computer programming errors resulted in the IRS incorrectly identifying Residential Energy Efficient Property Credit claims in excess of $500 or $1,000 for additional review.[32] Unlike the Nonbusiness Energy Property Credit, the Residential Energy

---

[30] TIGTA Audit No. 201640031, *Implementation of Refundable Credit Integrity Provisions.*

[31] Residential Energy Credits are claimed on Line 53 of Form 1040, *U.S. Individual Income Tax Return*, and supported by Form 5695, *Residential Energy Credits.* The Residential Energy Efficient Property Credit is claimed on Part I of Form 5695. The Nonbusiness Energy Property Credit is claimed on Part II of Form 5695.

[32] TIGTA, Ref. No. 2015-40-080, *Results of the 2015 Filing Season* (Aug. 2015).

Efficient Property Credit is generally limited to the taxpayer's tax liability rather than the $500 or $1,000 limitation.

In response to our concerns, IRS management indicated that they would revise computer programming and clarify procedures for verifying Residential Energy Efficient Property Credit claims for the 2016 Filing Season. However, our analysis of tax returns processed through April 28, 2016, found that the IRS did not implement planned computer programming changes to correct the processing errors we identified during the 2015 Filing Season. According to the IRS, 564 of the 731 tax returns we identified were incorrectly identified for additional review because these computer programming changes were not made. IRS management indicated that the remaining 167 paper returns resulted from employees not following procedures when working Residential Energy Efficient Property Credit claims. Finally, subsequent to the issuance of our Draft Report management identified that 24 of the returns were confirmed by IRS as involving identity theft and as such actions will not be taken to correct the errors associated with these returns.

IRS management indicated that programming corrections were not made due to tax extender changes to Form 5695, *Residential Energy Credits*. The extender changes required immediate action; therefore, they had to postpone the programming changes until Tax Year 2016.

IRS employees continue to not follow procedures for working tax returns with Residential Energy Efficient Property Credit claims

In addition to not correcting computer programming errors, we continue to identify IRS employees who are not following procedures when working Residential Energy Efficient Property Credit claims once identified for additional review. Specifically, employees are not entering a special processing code into the tax return record, and as a result some claims are being erroneously limited to $500 or $1,000 (depending on filing status).

Once a tax return claiming Residential Energy Credits is identified for review, internal guidelines instruct IRS employees to determine if the taxpayer's claim includes the Residential Energy Efficient Property Credit. If the taxpayer claimed the Residential Energy Efficient Property Credit, the employee is to enter a special processing code into the tax return record. This code is required to remove the credit limitation when the Residential Energy Efficient Property Credit is claimed so that the correct credit amount posts to the Master File.

We notified the IRS of our concerns with continued errors in processing Residential Energy Efficient Property Tax Credit claims on April 5, 2016. IRS management agreed with our assessment and stated that they have requested revisions to computer programming for the 2017 Filing Season.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 2: Implement computer programming changes to ensure that Residential Energy Efficient Property Credit claims are not inappropriately limited to $500 or $1,000.

> **Management's Response:** The IRS agrees with this recommendation. The IRS submitted a request for programming changes on January 11, 2016, that will identify applicable returns and forward them to the Error Resolution Units for review and correction. The IRS expects the programming change to be completed for the 2017 Filing Season; however, due to limited resources and competing priorities that could affect completion of the work, the IRS cannot provide an implementation date.

Recommendation 3: Review the 731 tax returns TIGTA identified for which the IRS incorrectly limited the taxpayer's Residential Energy Efficient Property Credit and ensure that individuals receive the credit to which they are entitled.

> **Management's Response:** The IRS agrees with this recommendation. As of October 17, 2016, all 731 returns were reviewed and have been corrected.

Recommendation 4: Identify additional Residential Energy Efficient Property Credit claims processed after April 28, 2016, to ensure that individuals receive the credit to which they are entitled.

> **Management's Response:** The IRS agrees with this recommendation. The IRS will identify and correct any additional Residential Energy Efficient Property Credit claims that were incorrectly limited.

Detecting and Preventing Tax Refund Fraud

As of May 7, 2016, the IRS reported that it identified 240,260 tax returns with $1.5 billion claimed in fraudulent refunds and prevented the issuance of $1.4 billion (91 percent)[33] of those refunds. Figure 7 shows the number of fraudulent tax returns identified by the IRS for Processing Years 2013 through 2015 as well as the refund amounts that were claimed and stopped.

[33] Actual amounts were used to calculate the percentage of refunds stopped; therefore, the percentage does not calculate when using the rounded numbers shown.

Figure 7: Fraudulent Returns and Refunds Identified and Stopped in Processing Years 2013 Through 2015

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refunds Identified	Amount of Fraudulent Refunds Stopped
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
2015	1,811,354	1,646,155	$12,369,252,837	$11,439,842,002

Source: IRS fraudulent tax return statistics for Processing Years 2013 through 2015.

The continued decreasing trend in the number of fraudulent tax refunds the IRS detects and stops is attributable to the IRS's expansion of its processes to prevent fraudulent tax returns from entering the tax processing system (*i.e.*, rejecting e-filed tax returns and preventing paper tax returns from posting). For example, as of April 30, 2016, the IRS locked approximately 31 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 a locked tax account is used to file a tax return. According to the IRS, as of April 30, 2016, it has rejected approximately 58,820 fraudulent e-filed tax returns and stopped 2,580 paper tax returns from posting to the Master File.

Detection of tax returns involving identity theft

For the 2016 Filing Season, the IRS used 183 identity theft filters to identify potentially fraudulent tax returns at processing. The identity theft filters incorporate criteria based on characteristics of confirmed identity theft tax returns, including amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, and filing history. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. The IRS attempts to contact the individual who filed the tax return and, if the individual's identity cannot be confirmed, the IRS removes the tax return from processing.

As of April 30, 2016, the IRS reported that it had identified and confirmed 170,590 fraudulent tax returns and prevented the issuance of nearly $1.1 billion in fraudulent tax refunds as a result of these filters. Figure 8 shows the number of identity theft tax returns the IRS identified and confirmed as fraudulent in Processing Years 2014 through 2016.

Figure 8: Identity Theft Tax Returns Confirmed As Fraudulent in Processing Years 2014 Through 2016 (as of April 30, 2016)

Processing Year	Number of Identity Theft Returns Identified
2014	236,313
2015	141,214
2016	170,590

Source: IRS fraudulent tax return statistics for Processing Years 2014 through 2016 as of April 30, 2016.

In addition, the IRS continues to use clustering filters that group tax returns based on characteristics that include the address, Internet Protocol address, and bank routing numbers. For the tax returns identified, the IRS then applies another set of business rules in an attempt to ensure that legitimate taxpayers are not included. Identified tax returns are held from processing while the IRS attempts to verify the taxpayer's identity. As of May 5, 2016, the IRS reported that it identified 120,260 tax returns and prevented the issuance of approximately $567.7 million in potentially fraudulent tax refunds.[34]

Computer processing errors continue to result in direct deposits not being converted to a paper check when required

Our analysis of direct deposit requests made as of May 5, 2016, found that IRS processes still do not always convert direct deposits to a paper check when required. The IRS received approximately 86 million requests for direct deposits as of May 5, 2016. Our analysis of the 86 million deposit requests identified 24,644 unique bank accounts with a total of 66,727 direct deposit attempts totaling $119.1 million that should have converted to a paper check. Of the 66,727 deposit attempts we identified, 5,605 (8.4 percent) deposit attempts totaling approximately $9.2 million did not convert to a paper check as required.

In an effort to further reduce fraudulent tax refunds, the IRS limits the number of direct deposit refunds that can be sent to one bank account to three refunds. The IRS will convert the fourth and subsequent direct deposit refund requests to a paper check and send it to the taxpayer's address of record. In August 2015, we reported that these processes did not convert to paper

[34] In March 2016, we reported that the IRS identified 328,908 tax returns and prevented the issuance of $1.4 billion in potentially fraudulent refunds using the clustering filter tool as of March 3, 2016. Subsequent to the release of our report, the IRS informed us that the correct results from the clustering filter tool as of March 3, 2016, are 86,058 identified tax returns and $419.4 million in potentially fraudulent tax refunds.

checks 9,166 deposits requested on Form 8888, *Allocation of Refund (Including Savings Bond Purchases)*, totaling $2.3 million.[35] Moreover, in December 2015, we reported that an additional 5,447 direct deposits requested on Form 1040 totaling more than $13.4 million also did not convert to a paper check.[36] IRS management stated 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 corrected two of the three issues and planned to implement computer programming changes to correct the third issue in Calendar Year 2016.

IRS management informed us that additional programming changes were implemented in July 2016 to address the remaining condition we identified during the 2015 Filing Season.

Screening of prisoner tax returns

As of May 7, 2016, the IRS reports that it identified for screening 35,785 potentially fraudulent tax returns filed using a prisoner SSN. Figure 9 shows the number of prisoner tax returns identified for screening in Processing Years 2014 through 2016.

Figure 9: Prisoner Tax Returns Identified for Screening in Processing Years 2014 Through 2016 (as of May 7, 2016)

Processing Year	Number of Prisoner Tax Returns Identified for Screening
2014	64,507
2015	45,316
2016	35,785

Source: IRS fraudulent tax return statistics for Processing Years 2014 through 2016 as of May 7, 2016.

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.

---

35 TIGTA, Ref. No. 2015-40-080, *Results of the 2015 Filing Season* (Aug. 2015).

36 TIGTA, Ref. No. 2016-40-008, *Continued Refinement of the Return Review Program Identity Theft Detection Models Is Needed to Increase Detection* (Dec. 2015).

The IRS uses both the Electronic Fraud Detection System and the Return Review Program to identify tax returns filed using prisoner SSNs. Both systems consist of a series of filters the IRS has designed to evaluate tax returns for potential fraud. Tax returns are processed through the systems, where 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 the SSN on the tax return matches the SSN of 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 with a prisoner indicator that 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.

We are conducting a separate review of the IRS's efforts to address prisoner fraud. We plan to issue our report in Fiscal Year 2017.[37]

Providing Customer Service

Taxpayers have multiple options to choose from when they need assistance from the IRS, including 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). The IRS continues its trend to depend more on technology-based services and external partners by directing taxpayers to the most cost-effective IRS or partner channel available to provide the needed service. The IRS notes that this approach allows it to focus limited toll-free and walk-in resources on customer issues that can be best resolved with person-to-person interaction. By using this approach, the IRS believes that it is able to improve its person-to-person service to taxpayers by addressing and resolving more complex matters such as assistance to identity theft victims and taxpayers with tax account issues. In an effort to redirect taxpayers to online services, the IRS continues to expand its online tools available on IRS.gov:

- ***Interactive Tax Assistant*** – 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 7, 2016, more than 1.1 million requests had been completed. However, this is a 6.1 percent decrease when compared to the more than 1.2 million requests that were completed during the same time period last filing season.

- ***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 7, 2016, there have been 276.8 million uses of the tool. This is a 30.6 percent increase over the same time last filing season.

- ***Am I Eligible for a Coverage Exemption or Required to Make a Shared Responsibility Payment*** – This interactive tool helps taxpayers determine if they are eligible for an

[37] TIGTA Audit No. 201640007, *Prisoner Fraud – Follow-Up.*

exemption from the minimum essential coverage requirement or if they must make a shared responsibility payment. According to the IRS, 66,550 taxpayers have used this tool as of May 7, 2016. This is an increase of 80 percent over the 36,927 uses for the same period last filing season.

- ***Individual Shared Responsibility Provision Payment Estimator*** – This tool allows taxpayers to estimate the amount they may have to pay if they did not maintain minimum essential coverage during the year. From January 1 through May 7, 2016, 29,626 taxpayers had used this tool.[38]

Accuracy of IRS tax forms, schedules, publications, and information on IRS.gov

Each year the IRS must update its tax forms, schedules, and publications as well as information on IRS.gov. These changes include inflationary adjustments, income limit phase-ins or phase-outs, and any legislative changes. We conducted a crosswalk of key changes for the 2016 Filing Season to determine whether the IRS made the necessary revisions to its website and tax forms. We identified several instances in which information was not always accurate or updated. When identified, we alerted IRS management so the issues could be addressed. For example:

- On January 14, 2016, we informed the IRS that our review of the *EITC Tax Preparer Toolkit* on IRS.gov identified a number of pages that had not been updated to reflect the increase in the EITC due diligence penalty amount from $500 to $505. We also found that the e-file acknowledgement alert issued to preparers who fail to submit Form 8867, *Paid Preparer's Earned Income Credit Checklist*, contains the wrong penalty amount (*i.e.*, amount shown as $500 rather than $505). According to IRS management, the *EITC Tax Preparer Toolkit* on IRS.gov was updated to reflect the proper penalty amount, and a message was added to the toolkit informing tax preparers of the error in the penalty amount in the acknowledgement alerts.
- On January 25, 2016, we notified the IRS that a link in the EITC pages on IRS.gov redirects the user to outdated tax information. The IRS responded that it created a fix to direct users to the correct pages for tax updates.
- On February 11, 2016, we notified the IRS that Publication 17, *Your Federal Income Tax*, and Publication 225, *Farmer's Tax Guide*, were not updated with tax law changes. Both publications state that, at the time of printing, certain tax benefits had expired and a link is provided in each of those publications to a page on the IRS.gov website to find out if legislation had been enacted to extend those tax benefits. However, the information linked to for both publications had not been updated. The link for Publication 17 went to a page that had no information listed under "Recent Developments," and the link for

[38] The Individual Shared Responsibility Payment Estimator did not come online until March 2015, so there are no prior year statistics for comparison.

Publication 225 only provided details about prior legislation passed in December 2014. The IRS responded that on February 18, 2016, *Recent Development Articles* were posted to the product pages for Publications 17 and 225 to reflect the tax law changes.

- On February 11, 2016, we notified the IRS that Publication 334, *Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)*, and Publication 946, *How to Depreciate Property*, was not available for Tax Year 2015. Both publications discuss the expense limitations for Section 179 property and should have been available to assist taxpayers in completing their tax returns. The IRS responded that Publication 334 was posted to IRS.gov on February 12, 2016, and that Publication 946 was released to print on February 18, 2016.

Self-assistance through IRS.gov and social media channels

The IRS continues to offer 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. As of May 7, 2016, the IRS reports there were approximately 2.5 million new downloads of the IRS2Go mobile application, bringing the total users since the application's inception to 9.4 million users.

In addition, the IRS uses various forms of social media, including YouTube, Twitter, Tumblr, and Facebook, to provide customer service and outreach. As of May 7, 2016, there have been 952,310 views of IRS YouTube videos and a 5 percent increase in Twitter followers, for a total of 123,242 total followers.

The most notable self-assistance option is the IRS's public Internet site (IRS.gov). The IRS continues to direct taxpayers to its website as the best source for answers to their tax questions. The IRS reports more than 342 million visits to IRS.gov this filing season as of May 7, 2016. This represents an increase of 4.9 percent over the 326 million that visited IRS.gov during the same period last filing season.

Toll-free telephone assistance level of service increased

The Consolidated Appropriations Act of 2016 provided the IRS with an additional $290 million for key areas that directly support taxpayers. In its spending plan for these funds, the IRS informed Congress that $178.4 million[39] would be used to increase the telephone Level of Service.[40] The remainder would be used for cybersecurity activities ($95.4 million) and identity

---

[39] The $178.4 million apportioned to improving telephone Level of Service included $176.6 million to the Taxpayer Service appropriation and $1.8 million to the Operations Support appropriation.

[40] The Level of Service is 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.

theft prevention and refund fraud mitigation activities ($16.1 million). The IRS projected a 47 percent Level of Service for Fiscal Year 2016 and a 65 percent Level of Service for the 2016 Filing Season. We conducted a separate analysis of IRS allocation of resources for Taxpayer Services, which is included in another report.[41]

As of May 7, 2016, approximately 83.2 million total attempts and 55.1 million net attempts were made by taxpayers 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.[42] The IRS reports that 27.6 million calls were answered with automation and telephone assistors answered 14.1 million calls and provided a 69 percent Level of Service with a 12.2 minute Average Speed of Answer. For perspective, the Level of Service for the 2015 Filing Season was 37.7 percent. Figure 10 shows a comparison of IRS toll-free telephone statistics through May 7, 2016, for Filing Seasons 2013 through 2016.

Figure 10: Toll-Free Telephone Statistics for Filing Seasons 2013 Through 2016 (as of May 7, 2016)

Statistic	Filing Season			
	2013	2014	2015	2016
Assistor Calls Answered	16,256,428	11,551,001	8,685,947	14,122,334
Level of Service	69.6%	70.7%	37.7%	69.0%
Average Speed of Answer (Minutes)	14.4	14.6	23.8	12.2

Source: IRS management information reports as of May 7, 2016. TIGTA converted the Average Speed of Answer in the reports from seconds to minutes.

The IRS continues to decrease the number of taxpayers it assists at its Taxpayer Assistance Centers

Each year, many taxpayers seek assistance from one of the IRS's 376 walk-in offices, called TACs. The IRS assisted 5.6 million taxpayers in Fiscal Year 2015 and assisted 4.5 million taxpayers in Fiscal Year 2016, a 20 percent decrease from Fiscal Year 2015. The IRS indicated that budget cuts and its strategy of appointment service at certain TACs, along with continued promotion of alternative service options, such as the IRS's website, resulted in the reduction of

[41] TIGTA, Ref. No. 2017-40-013, *Analysis of Resources Allocated to Taxpayer Services* (Dec. 2016).

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

the number of taxpayers the IRS assisted at the TACs. Figure 11 shows the number of contacts by product line at the TACs for Fiscal Years 2013 through 2016.

Figure 11: Taxpayer Assistance Center Contacts for Fiscal Years 2013 Through 2016 (in millions)

Contacts/Product Lines	Fiscal Year			
	2013	2014	2015	2016
Tax Accounts Contacts	4.4	3.6	3.8	3.1
Forms Contacts	0.5	0.4	0.3	0.1
Other Contacts[43]	1.5	1.4	1.5	1.2
Tax Law Contacts	0.2	0.1	0.1	0.1
Totals	**6.5**	**5.5**	**5.6**	**4.5**

Source: IRS management information reports. Totals may not calculate due to rounding.

To eliminate long lines that can occur, in Calendar Year 2015, the IRS began providing services at selected TACs by appointment. For Fiscal Year 2016, the IRS offered appointments at 150 locations.[44] The IRS reports that as of April 30, 2016,[45] 386,615 taxpayers scheduled an appointment.

The IRS continues to offer taxpayers a Virtual Service Delivery option to receive assistance

Virtual Service Delivery 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." Taxpayers can use this technology to obtain many of the same services offered at TAC sites. The goals for Virtual Service Delivery are to enhance the use of IRS resources, optimize staffing, and balance workload. For the 2016 Filing Season, the IRS offered Virtual Service Delivery at 35 locations, including 24 TACs and 11 Volunteer Program sites. The IRS reports that as of April 30, 2016,[46] a total of 12,678 taxpayers used this service.

[43] Other Contacts include responding to correspondence, scheduling appointments, authenticating ITINs, providing self-assistance services, and contacts which do not fall into the defined categories.
[44] Locations consist of 143 TACs and seven Partner Virtual Service Delivery sites.
[45] For Fiscal Year 2016 – October 1, 2015, through April 30, 2016.
[46] For Fiscal Year 2016 – October 1, 2015, through April 30, 2016.

The volume of tax returns prepared at Volunteer Program sites increases

The Volunteer Program plays an important role in the IRS's efforts to improve taxpayer service and facilitate participation in the tax system. It provides no-cost Federal tax return preparation and e-filing to underserved taxpayer segments, including low-income, elderly and disabled, rural, Native American, and limited-English-proficient taxpayers. As of May 8, 2016, approximately 3.7 million tax returns have been prepared at the 11,831 Volunteer Program sites nationwide. Figure 12 shows the number of tax returns prepared by volunteers from Fiscal Years 2013 through 2015.

Figure 12: Volunteer Program Statistics for Fiscal Years 2013 Through 2015

	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Percentage Change (Fiscal Year 2014 to Fiscal Year 2015)
Tax Returns	3,406,182	3,646,562	3,756,707	3.0%
Volunteers	91,820	93,082	90,826	-2.4%
Sites	13,081	12,319	12,057	-2.1%

Source: IRS management information system containing Fiscal Years 2013 through 2015 information. Percentages are rounded.

The Accounts Management function's over-aged inventory remains elevated

As of May 7, 2016, the IRS reported 1 million cases in its over-aged inventory. Accounts Management inventory includes but is not limited to amended tax returns, responses to taxpayer notices, identity theft cases, and applications for ITINs. Inventory greater than 45 calendar days is generally considered over-aged. Figure 13 provides a comparison of the Accounts Management inventory between Processing Years 2012 and 2015.

Figure 13: Year-to-Date Comparisons of Accounts Management Inventory as of the End of Processing Years 2012 Through 2015

	2012	2013	2014	2015
Total Inventory	2,401,845	2,580,527	2,542,125	2,890,392
Over-Aged Volume	592,536	1,187,255	1,168,181	1,318,446
Percentage Over-Aged	24.7%	46.0%	46.0%	45.6%

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

According to IRS management, the Accounts Management function has lost more than 2,000 full-time equivalent staff positions since Fiscal Year 2012, a reduction of more than

12 percent. Additionally, the Accounts Management staff is divided between working taxpayer correspondence and staffing the customer service telephone lines. In Fiscal Year 2015, the number of employees available to work correspondence was still down more than 7 percent from Fiscal Year 2012. IRS management stated that the reductions in available staff are the most significant factor in increasing over-age inventory. In February 2016, we reported that the IRS has taken action to improve its correspondence inventory. However, managers continue to not effectively use over-age reports to monitor and reduce inventory.[47]

[47] TIGTA, Ref. No. 2016-40-023, *Continued Inconsistent Use of Over-Age Correspondence Lists Contributes to Taxpayer Burden and Unnecessary Interest Payments* (Feb. 2016).

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 2016 Filing Season.[1] To accomplish this objective, we:

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

II. 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 6, 2016, 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 2015 receipts for the same period.

  B. Monitored key filing season indicators including but not limited to the volume of tax return receipts, Error Resolution System inventories, e-file business rule reports, and applicable IRS Internet and intranet websites.

  C. Obtained extracts from the TIGTA Strategic Data Services group of selected tax return data contained on the TIGTA Data Center Warehouse. Evaluated the reliability of the data by comparing the data to return information contained in IRS processing systems. We determined that the data were sufficiently reliable for use in our audit tests.

III. Determined if the IRS correctly implemented selected tax extender provisions passed in Calendar Year 2015 that affect the processing of individual taxpayer returns during the 2016 Filing Season.

  A. Identified selected extended provisions which will have an impact on taxpayers.

    1. Health Coverage Tax Credit.
    2. Tuition and Fees Deduction.
    3. State and Local General Sales Taxes Deduction.
    4. Mortgage Insurance Premium Deduction.

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

5. Exclusion From Gross Income – Discharge of Indebtedness on Principal Residence.
6. Tax-Free Distributions From Individual Retirement Plans for Charitable Purposes.
7. Increase in Expensing for Section 179 Property in Lieu of Depreciation.

B. Identified and reviewed specific tax law changes for the provisions listed above to ensure that they are accurately reflected in all applicable forms, instructions, and publications. Also ensured that the business rules and error codes are in place where necessary.

C. Assessed the accuracy of the IRS processing of the following tax law changes and quantified the impact of any errors identified.

1. Health Coverage Tax Credit.[2]
2. Tuition and Fees Deduction.
3. State and Local General Sales Taxes Deduction.

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

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

VI. Followed up on findings previously reported by TIGTA and quantified the impact of identified errors.

A. Determined if the IRS implemented computer programming changes to properly limit the number of direct deposits to a single bank account.

B. Determined if the IRS is incorrectly limiting Residential Energy Efficient Property Credit claims on Tax Year 2015 tax returns.

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

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

A. Determined individuals' use of the split-refund option for depositing their refunds.

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

[2] We used multiple processes to assess the IRS's processing of HCTC claims, including a judgmental sample and systemic computer analysis. A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

IX. Identified results for the TAC Program.

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

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

XII. Identified results for the Accounts Management function correspondence inventory.

XIII. Identified results for IRS 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 2016 Filing Season. We evaluated these controls by monitoring the IRS weekly production meetings, reviewing IRS procedures, and interviewing IRS management.

Appendix II

Major Contributors to This Report

Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services)
Deann L. Baiza, Director
Frank J. O'Connor, Acting Audit Manager
Mark V. Willoughby, Lead Auditor
John L. Hawkins, Senior Auditor
Sandra L. Hinton, Senior Auditor
Nathan J. Cabello, Auditor

Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Services and Enforcement
Director, Accounts Management, Wage and Investment Division
Director, Business Modernization Office, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
Director, E-File Services, Wage and Investment Division
Director, Field Assistance, Wage and Investment Division
Director, Joint Operation Center, Wage and Investment Division
Director, Stakeholder Partnership, Education, and Communications, Wage and Investment Division
Director, Strategy and Finance, Wage and Investment Division
Director, Submission Processing, Wage and Investment Division
Chief Counsel
National Taxpayer Advocate
Director, Office of Legislative Affairs
Chief, Program Evaluation and Improvement, Wage and Investment Division
Director, Office of Audit Coordination

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:

- Revenue Protection – Potential; 324 tax returns with potentially erroneous HCTCs totaling $550,543 that resulted from IRS processing errors (see page 9).

Methodology Used to Measure the Reported Benefit:

Our review of 6,300 e-filed tax returns[1] and 356 paper tax returns with HCTC claims processed as of April 28, 2016, identified 324 tax returns for which IRS processing errors resulted in taxpayers receiving $550,543 in HCTCs to which they potentially were not entitled. These errors include:

- 305 tax returns with HCTC claims totaling approximately $441,000 for which IRS employees incorrectly transcribed the HCTC into another line on the tax return when entering the information into IRS computers. As a result, these tax returns were not subjected to HCTC filters designed to identify potentially erroneous claims.
- 19 tax returns for which the IRS allowed the HCTC without verifying that the taxpayer provided the required supporting documentation or for which the documentation provided did not support the claim. As a result, these taxpayers received approximately $110,000 in HCTCs to which they may not have been entitled. Internal guidelines instruct IRS employees to determine if the taxpayer provided adequate support for his or her HCTC claim.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 126 taxpayers for whom HCTC processing errors and inadequate processes inappropriately delayed their refund (see page 9).

[1] Our analysis of e-filed tax returns included tax returns filed but not yet processed as the IRS must manually review each HCTC claim for validity of the claim before the tax return can be processed.

Methodology Used to Measure the Reported Benefit:

Our review of 6,300 e-filed tax returns[2] and 356 paper tax returns with HCTC claims processed as of April 28, 2016, identified 126 tax returns for which HCTC processing errors and inadequate processes inappropriately delayed the taxpayer's refund. These errors include:

- 111 tax returns with HCTC claims totaling approximately $247,000 for which IRS employees incorrectly entered the amount of the HCTC into the IRS computer system. Most of these errors resulted from employees entering the HCTC amount as dollars and cents into a dollars-only computer field; *i.e., HCTC of $100.00 was entered as $10,000.* As a result, the IRS incorrectly froze the taxpayers' allowable refunds instead of freezing only the unsupported HCTC. The taxpayer's refund will remain frozen until the IRS corrects the error.
- 8 tax returns for which IRS employees did not follow established procedures to ensure that the required code was input to the taxpayer's account when no HCTC eligibility indicator was present.[3] As a result, the IRS unnecessarily delayed the issuance of refunds totaling approximately $31,000. The IRS has a systemic control to check the tax account of individuals claiming the HCTC to determine if there is an HCTC eligibility indicator. If the code is not input correctly, the tax return will not post to the Master File and the taxpayer's refund will not be issued until the error is corrected.
- 7 tax returns for which the IRS incorrectly corresponded with the taxpayer to obtain the required documentation when the taxpayer had already provided supporting documentation with the tax return or indicated that the documentation had already been mailed using Form 8453, *U.S. Individual Income Tax Transmittal for an IRS e-file Return*. As a result, the IRS unnecessarily delayed the processing of these returns, resulting in the taxpayers not timely receiving HCTCs totaling approximately $78,000. These unnecessary contacts with taxpayers resulted from internal guidelines not requiring employees to perform research to determine if supporting documentation for e-filed returns was mailed with Form 8453 before corresponding to request the documents. It was not until May 3, 2016, that the IRS had established a process to determine if the taxpayer submitted Form 8453 with supporting documentation.

[2] Our analysis of e-filed tax returns included tax returns filed but not yet processed as the IRS must manually review each HCTC claim for validity of the claim before the tax return can be processed.
[3] The IRS places an HCTC indicator on a taxpayer's tax account when information received from the Pension Benefit Guaranty Corporation indicates the taxpayer lost his or her health care coverage as a result of his or her employer moving operations overseas or entering into bankruptcy.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Actual; 707 taxpayers who did not receive Residential Energy Credits totaling $1,218,266 to which they were entitled as a result of the IRS incorrectly limiting the credit amount (see page 15).

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 Residential Energy Efficient Property Credit and the Nonbusiness Property Energy 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.

Our review found that the IRS incorrectly limited the Residential Energy Efficient Property Credit on 731 tax returns processed as of April 28, 2016, resulting in these taxpayers receiving $1,251,130 less in credits than they were entitled to receive. The IRS reviewed the 731 returns we identified and determined that 24 returns were identified as identity theft and therefore the return did not post to the Master File. These returns had Residential Energy Efficient Property Credits totaling $32,864. Our outcome is computed as follows:

- Number of taxpayers: 731 taxpayers identified by TIGTA less 24 returns identified as identity theft = 707 taxpayers.
- Dollars: $1,251,130 in credits claimed on the 731 returns TIGTA identified less the $32,864 in credits claimed on the 24 identity theft returns = $1,218,266.

Type and Value of Outcome Measure:

- Revenue Protection – Potential; $9,186,506 from 5,605 requested direct deposits not converted to a paper refund check as required (see page 17).

Methodology Used to Measure the Reported Benefit:

Our analysis of tax returns processed as of as of May 5, 2016, identified 85,855,402 requests for direct deposit. Our analysis of the 85,855,402 deposit requests identified 24,644 unique bank accounts with a total of 66,727 direct deposit attempts totaling $119,126,215 that should have converted to a paper check. Of the 66,727 deposit attempts we identified, 5,605 (8.4 percent) deposit attempts totaling $9,186,506 did not convert to the issuance of a paper check as required.

Appendix V

Interactive Self-Help Tools and YouTube Videos

Interactive Self-Help Tools Reviewed	IRS YouTube Videos Reviewed
• Earned Income Tax Credit (EITC) Assistant • Sales Tax Deduction Calculator	• Amending My Return • Direct Deposit • Education Tax Credits • Savings Bonds

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

Appendix VI

Glossary of Terms

Term	Definition
Additional Child Tax Credit	The refundable portion of the Child Tax Credit that was designed to reduce the income tax burden for families with dependent children.
Adjusted Gross Income	Gross income minus adjustments to income.
American Opportunity Tax Credit	A partially refundable Federal tax credit used to help parents and college students offset the costs of college.
Average Speed of Answer	The average number of seconds taxpayers waited in the assistor queue (on hold) before receiving services.
Child Tax Credit	A tax credit for families with dependent children that is used to reduce the individual income tax burden for families, better recognize the financial responsibilities of raising dependent children, and promote family values.
Earned Income Tax Credit	The EITC is used to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment.
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 Equivalent	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 Year 2016, one full-time equivalent was equal to 2,096 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 to purchase health insurance.
Individual Return Transaction File	A database the IRS maintains that contains information on the individual returns it receives.
Individual Taxpayer Identification Number	A number created by the IRS to provide Taxpayer Identification Numbers to individuals who do not have and are not eligible to obtain a Social Security Number.
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. Minimum essential coverage also includes doctor visits, hospitalization, mental health services, and prescription drugs.
Premium Tax Credit	A refundable tax credit created by the ACA to assist eligible taxpayers with paying their health insurance premiums.
Processing Year	The calendar year in which the tax return or document is processed by the IRS.
Shared Responsibility Payment	Beginning with the 2015 Filing Season, if a taxpayer or anyone in the taxpayer's tax household does not have minimum essential coverage and does not qualify for a coverage exemption, the taxpayer will need to make 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	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.

Term	Definition
Taxpayer Assistance Centers	Walk-in sites where taxpayers can receive assistance when they believe their tax issue cannot be handled online or by telephone or when they want face-to-face assistance.
Volunteer Program	Includes the Volunteer Income Tax Assistance Program, including the Volunteer Income Tax Assistance Grant Program and the Tax Counseling for the Elderly Program. The Volunteer Program provides free tax assistance to persons with low to moderate income (generally $54,000 and below), the elderly and disabled, 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

DEC 1 6 2016

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 2016 Filing Season (Audit # 201640004)

Thank you for the opportunity to review the subject draft report and provide comments. We appreciate the review and recommendations by the Treasury Inspector General for Tax Administration with regard to specific problems in what was overall a very successful filing season. In particular, we appreciate the acknowledgement of the steps the IRS took to reduce the impact of late legislation on this year's filing season. Congress passed the Protecting Americans from Tax Hikes (PATH) Act of 2015 on December 18, 2015, as part of the Consolidated Appropriations Act of 2016. Due to early monitoring efforts, we were able to implement key extender tax provisions that were reinstated after having expired on December 31, 2014.

Certain integrity provisions of the PATH Act created a need for new data in order to effectively implement them. During 2016, we revised our information sharing agreement with the Social Security Administration to obtain the issuance dates of Social Security Numbers. We also worked on programming our systems to use the new issuance date information, as well as the assignment dates of Individual Taxpayer Identification Numbers (ITIN) and Adoption Taxpayer Identification Numbers (ATIN), upon the start of the 2017 Filing Season. In the interim, we issued alerts to our employees in February 2016 to hold all retroactive claims in suspense status. In April 2016, we implemented manual matching procedures for amended returns making retroactive claims with ITINs and ATINs. As noted in the report, programming changes that were expected to be deployed for the 2016 Filing Season, affecting the processing of Residential Energy Credit claims were postponed due to other immediate programming changes required by the extender legislation. Programming requested in 2015, to address instances where some direct deposit refunds were not being converted to paper checks, was deployed in mid-2016 and was successful in stopping applicable direct deposit refunds processed after the deployment date.

2

During 2016, we also increased the scrutiny of returns with discrepancies between the Premium Tax Credit (PTC) information on the return and the marketplace data. By corresponding with taxpayers when discrepancies were detected during initial return processing, and conducting pre-refund examinations when discrepancies were not resolved by correspondence, we ensured a greater number of complete and accurate tax returns were filed. Corresponding with taxpayers also assisted them in meeting their reconciliation requirements when enrolling in the marketplace for 2017 coverage.

The 2016 Filing Season marked the first year in which providers of qualified health insurance coverage were required to file Form 1095-B, *Health Insurance Coverage*, and employers were required to file Form 1095-C, *Employer-Provided Health Coverage*. Ensuring that processing systems were thoroughly tested and able to timely process and make the data available did require the due date for these forms to be extended; however, that additional testing resulted in the accurate processing of over 319 million electronic and paper Forms 1095-B and 1095-C. Also contributing to the successful processing of these new forms were the efforts of our Electronic Products & Services Support help desk, which addressed over 50,000 requests for assistance and e-Services registrations.

As mentioned in this report, the IRS received a supplemental budget appropriation of $290 million. Of that amount, approximately $178 million was used to make measurable improvements in the toll-free telephone level of service. Systemic enhancements that increased capacity and resulted in significantly fewer incomplete calls due to system overloads, and the ability to employ additional staff, directly contributed to the improved service level. The toll-free telephone LOS increased from 37 percent during the 2015 Filing Season to 72 percent for the corresponding period in 2016. In addition to improved telephone service, the Accounts Management function reduced taxpayer correspondence by 22 percent, while decreasing the overage percentage from 50 percent to 37 percent by year end.

The decline in visits to our Taxpayer Assistance Center (TAC) locations is an indication of the positive impact of our focus on improving taxpayer service. As a result of moving our TAC's to an appointment system, we have been able to educate taxpayers about alternative service options available to them that often eliminated their need to travel to a TAC for face-to-face assistance. During Fiscal Year 2016, the TAC appointment line answered 4.48 million calls from taxpayers seeking appointments. In about half of the cases, the telephone assistor was able to assist the taxpayer or direct them to online resources that resolved their issue without the need for face-to-face assistance. The combination of moving large numbers of taxpayers to other solutions, together with providing specific appointment times for a visit, meant that the long lines at many TAC's in previous years generally disappeared and those visiting a TAC were able to come to the TAC at the appointed time, confident they would be served.

3

We agree with the recommendations made in the report and have attached our comments and proposed actions. 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 (470) 639-3504.

Attachment

Attachment

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1
Review the 450 HCTC claims TIGTA identified as being incorrectly processed to ensure that taxpayers received the HCTCs to which they are entitled and erroneously issued HCTCs are recovered.

CORRECTIVE ACTION
We agree with this recommendation. We have addressed 118 affected returns and will coordinate with other business units, as needed, to review the remaining 332 claims and make necessary corrections to the accounts.

IMPLEMENTATION DATE
August 15, 2017

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
Implement computer programming changes to ensure that Residential Energy Efficient Property Credit claims are not inappropriately limited to $500 or $1,000 depending on the taxpayer's filing status.

CORRECTIVE ACTION
We agree with this recommendation and submitted a request for programming changes on January 11, 2016, that will identify applicable returns and forward them to the Error Resolution Units for review and correction. We expect the programming change to be completed for the 2017 Filing Season; however, due to limited resources and competing priorities that could affect completion of the work, we cannot provide an implementation date.

IMPLEMENTATION DATE
N/A

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

2

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

RECOMMENDATION 3
Review the 731 tax returns TIGTA identified for which the IRS incorrectly limited the taxpayer's Residential Energy Efficient Property Credit and ensure that individuals receive the credit to which they are entitled.

CORRECTIVE ACTION
We agree with this recommendation. As of October 17, 2016, all 731 returns were reviewed and have been corrected.

IMPLEMENTATION DATE
Implemented

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

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 4
Identify additional Residential Energy Efficient Property Credit claims processed after April 28, 2016, to ensure that individuals receive the credit to which they are entitled.

CORRECTIVE ACTION
We agree with this recommendation and will identify and correct any additional Residential Energy Efficient Property Credit claims that were incorrectly limited.

IMPLEMENTATION DATE
August 15, 2017

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.