Expansion of Self-Correction for Electronic Filers and Other Improvements Could Reduce Taxpayer Burden and Costs Associated With Tax Return Error Resolution

December 15, 2020

Reference Number: 2021-40-008

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HIGHLIGHTS: Expansion of Self-Correction for Electronic Filers and Other Improvements Could Reduce Taxpayer Burden and Costs Associated With Tax Return Error Resolution

Final Audit Report issued on December 15, 2020
Reference Number 202140008

Why TIGTA Did This Audit

The Error Resolution System (ERS) is used by the IRS to identify and address tax return errors made by taxpayers, tax return preparers, and IRS employees during tax return processing. During the 2019 Filing Season, 13.9 million (9 percent) of the 155.8 million total individual tax returns filed were sent to the ERS for manual review.

The overall objective of this audit was to evaluate the efficiency and effectiveness of the ERS.

Impact on Taxpayers

The ERS identifies errors on paper and electronically filed (e-filed) tax returns. Tax returns identified by the ERS remain in the inventory until a tax examiner takes initial action on all error conditions on the return. For those tax returns with errors that require additional information from the taxpayer or additional research of other IRS systems, the tax examiner suspends the return from processing until the additional research is completed or a response is received from the taxpayer.

What TIGTA Found

As of December 27, 2019, the IRS accepted e-filed tax returns that contained more than 9 million identified error conditions. Providing taxpayers with the opportunity to self-correct errors on accepted e-filed tax returns can reduce taxpayer burden and improve the efficiency and effectiveness of tax return processing. When practical, providing taxpayers with the opportunity to self-correct and resubmit their e-filed returns can reduce delays in obtaining their refunds. This is even more imperative given the impact that the Coronavirus Disease 2019 (COVID-19) had on ERS operations.

In addition, the IRS is not using existing tax return data to systemically resolve errors. For example, TIGTA identified two error codes in which expanding the use of e-filed tax return data could prevent 537,769 e-filed tax returns from being identified for manual verification and result in an estimated cost savings to the IRS of $962,607 per year. The IRS also has not developed processes to systemically suspend and reactivate tax returns that must be suspended from processing while it makes programming updates, such as those needed to implement legislation enacted late in the calendar year. For example, as of February 15, 2020, the IRS suspended 98,479 tax returns with tax extender items. These tax returns had to be manually suspended and reactivated once programming was completed at an estimated cost of $176,277.

In addition, enhancements are needed to improve IRS management's ability to more effectively monitor ERS program performance. Currently, IRS management relies on manual processes to monitor program performance. However, these processes do not allow IRS management to identify patterns or trends in ERS performance or holistically monitor all error codes to ensure that they work as designed.

Finally, the IRS has not implemented processes or procedures to identify and correct erroneous tax examiner entries. For example, analysis of Tax Year 2018 Child Tax Credit and Additional Child Tax Credit claims identified 8,397 tax returns for which taxpayers received $8 million more than they were entitled, and 12,147 tax returns for which taxpayers received $9.1 million less than they were entitled because of tax examiner errors in the verified fields.

What TIGTA Recommended

TIGTA made nine recommendations to improve the IRS's administration of the ERS program including developing processes to provide taxpayers the opportunity to self-correct errors on accepted e-filed returns and systemic error resolution processes to address tax return errors. TIGTA also recommended that the IRS develop processes and procedures to identify and correct tax examiner entries in verified fields and establish processes to ensure that tax returns with verified amounts are systemically reprocessed through ERS programming before being released for processing.

IRS management agreed with all nine recommendations and plans to take appropriate corrective actions.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

December 15, 2020

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

M. Weir for

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Expansion of Self-Correction for Electronic Filers and Other Improvements Could Reduce Taxpayer Burden and Costs Associated With Tax Return Error Resolution (Audit # 201940007)

This report presents the results of our review to evaluate the efficiency and effectiveness of the Error Resolution System. This audit was included in our Fiscal Year 2020 Annual Audit Plan and addresses the major management and performance challenge of *Providing Quality Customer Service*.

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

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

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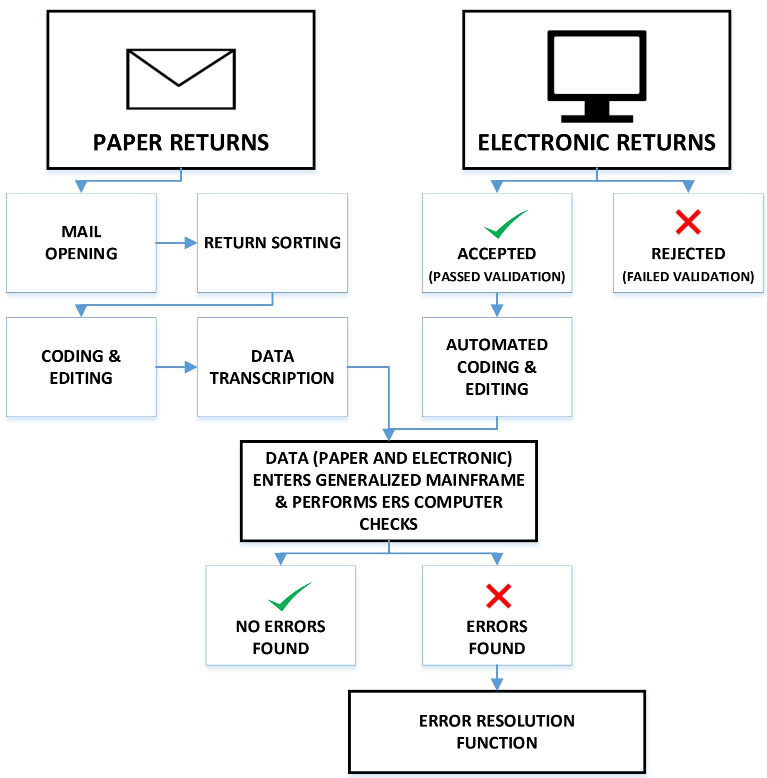
Background

The Error Resolution System (ERS) is used by the Internal Revenue Service (IRS) to identify and address tax return errors. This includes errors made by taxpayers, tax return preparers, and IRS employees during tax return processing. Errors identified include math calculation errors, required forms and schedules not included with the tax return, and incorrect field formats (*i.e.*, letters entered into a numeric field). These errors are identified on paper and electronically filed (e-filed) tax returns via computer programming. Once identified, tax examiners in the IRS Error Resolution function are alerted to each of the specific errors that need to be resolved. Depending on the error, the tax examiner may need to correspond with a taxpayer. Figure 1 provides an overview of the flow of tax returns from receipt to ERS processing (referred to as the submission processing pipeline).

Figure 1: Overview of the IRS Submission Processing Pipeline[1]



Source: The Treasury Inspector General for Tax Administration's (TIGTA) review of the IRS Submission Processing pipeline, https://www.irsvideos.gov/Professional/IRSWorkProcesses/SubmissionProcessingPipeline.

[1] Code and Edit is responsible for preparing returns for processing by reviewing and editing the documents with specialized processing codes for use downstream. For paper returns, this is a manual process. For electronic returns, this is an automated process. Data Transcription is responsible for entering all transcribed lines from applicable schedules and forms on paper returns. The Generalized Mainline Framework validates and perfects the data.

Types of errors identified by the ERS

The ERS identifies and classifies errors into four types of conditions:

- Priority I – Action Code Errors - are identified when additional action is needed before a return can be processed. For example, a Priority I error can occur when an IRS employee makes an error when manually perfecting a paper tax return for processing.
- Priority II – Section Errors – are identified when an error is made when inputting a paper tax return into the tax return processing system. For example, a section error will be identified when the information entered into a field exceeds the number of characters or length for that field.
- Priority III – Field Errors – are identified when the information entered into a field on the tax return does not meet the requirements for the value of that field. For example, a field error occurs when there are letters in a field that should contain numbers, or there are blank spaces where numbers are required.
- Priority IV – Math/Consistency Errors – are identified when the tax liability, balance due amount or refund computed is incorrect, or when information on the return does not match the information on a supporting form or schedule.[2] When these types of errors are identified, the ERS will generate a specific error code number(s) to alert tax examiners of the condition(s) that needs to be corrected. For Processing Year 2020, the IRS had 324 individual return error codes. These errors may require a tax examiner to correspond with a taxpayer to resolve the error (*i.e.*, sends a letter or notice requesting additional information or explaining a math, clerical, or credit-related error that was corrected).

Figure 2 shows the number of errors identified during Calendar Year 2019 on individual tax returns, by error type, as of December 27, 2019.

Figure 2: Individual Error Conditions by Error Type
January 1, 2019, Through December 27, 2019

Type of Return	Priority I Errors	Priority II Errors	Priority III Errors	Priority IV Errors	Total Errors
Paper	**424,859**	**186,856**	**1,105,914**	**15,399,402**	**17,117,031**
E-Filed	**118,836**	**23**	**25,266**	**8,921,260**	**9,065,385**
Total	**543,695**	**186,879**	**1,131,180**	**24,320,662**	**26,182,416**

Source: IRS Control-D Report MER-03-41, Error Count Report Year-to-Date as of December 27, 2019.

Resolving error conditions

Tax returns identified by the ERS remain in ERS function inventory until a tax examiner takes initial action on all error conditions on a return. Tax examiners resolve each error using established procedures outlined in their internal guidelines. These guidelines explain in detail the actions to be taken to resolve the type of error(s) identified. Job Aids are also available to further assist tax examiners in resolving errors. For those tax returns with errors that require

[2] This could be the result of data transcription errors while inputting the tax return or due to errors made by the taxpayer.

additional information from the taxpayer or additional research of other IRS systems, the tax examiner suspends the return from processing until the additional research is completed or a response is received from the taxpayer. Generally, if the taxpayer does not respond to the IRS's inquiry within 40 business days, the tax examiner will follow the specific no-reply instructions for the error code. Due to the IRS's limited error correction authority, the tax examiner must clear some error codes and release the return to be processed as filed (*i.e.*, with the error condition still present).

Results of Review

The ERS program assists the IRS in perfecting tax returns by identifying errors on tax returns during tax return processing. This prevents tax returns from unnecessarily being selected for compliance treatment after processing. For the 2019 Filing Season, the IRS identified 13.9 million individual tax returns that contained one or more errors, as of December 27, 2019. However, our review identified actions the IRS can take to modernize its error identification and resolution processes. These actions will reduce taxpayer burden and the resources the IRS expends to correct tax returns. The actions include:

- Providing taxpayers with the opportunity to self-correct errors on accepted e-file returns. This should be a primary focus when developing programming for existing and new error conditions. As our report details, when practical, providing taxpayers with the opportunity to self-correct e-filed returns can reduce delays in obtaining their refunds. This is even more imperative given the impact that the Coronavirus Disease 2019 (COVID-19) had on ERS operations. For example, in response to COVID–19, the IRS closed its tax processing centers, which resulted in a backlog of an estimated 10.4 million pieces of unopened mail as of May 20, 2020. Some of this mail included correspondence from taxpayers sent in response to an error condition identified prior to the centers being closed. All four tax processing centers were closed as of April 6, 2020. The IRS had 984,830 individual tax returns in ERS inventory that still needed to be worked as of April 3, 2020. The number of unworked individual returns increased to 1,599,091 as of May 22, 2020. The ERS function was able to work a limited number of e-filed tax returns via telework while the tax processing centers were closed. The IRS began reopening the centers on June 1, 2020, with the last center reopening on June 29, 2020. All of the tax processing centers are operating with limited staff due to social distancing measures and employees who have been identified as high risk.
- Implementing processes to systemically suspend and reactivate tax returns such as those that must be held while making last minute programming changes due to late legislative changes.
- Enhancing IRS management's ability to more effectively monitor program performance.

Finally, processes and procedures are needed to identify and correct erroneous entries by ERS tax examiners when they make a correction to a return, which resulted in millions of dollars in improper payments.

Providing Taxpayers With the Opportunity to Self-Correct Errors on Accepted E-filed Tax Returns Can Reduce Taxpayer Burden and Improve the Efficiency and Effectiveness of Tax Return Processing

Our review found that IRS processes do not consistently provide taxpayers the opportunity to self-correct errors on e-filed tax returns. For example, some e-filed returns with a missing form are rejected to provide the taxpayer the opportunity to self-correct the error (*i.e.*, attach the missing form and resubmit the e-file return) while others are accepted and sent to the ERS for manual correction by an IRS tax examiner, which suspends the return and holds the refund until the error condition is resolved. As of December 27, 2019, the IRS identified e-filed tax returns that contained more than 9 million identified error conditions for manual correction.

IRS management explained that the below criteria denotes a legally valid tax return for the purpose of satisfying the individual's tax return filing requirement.[3]

- The tax return contains sufficient information to calculate a tax liability.
- The document is intended to be a tax return.
- The tax return has good intentions to follow the tax laws (*i.e.*, the return is not intentionally incorrect).
- The taxpayer submits the return under penalties of perjury.

IRS management further explained that the statutory filing date of a tax return is the date the IRS receives a legally valid tax return from the taxpayer (*i.e.*, a return that meets the criteria above). Current e-file processes consider an e-filed tax return to be "filed" when the IRS accepts the return for processing, not when the return was originally received by the IRS. IRS management stated that they currently do not have the ability to use the date an e-filed return was initially received as the return filing date in the Individual Master File.

IRS management agreed that they have not consistently applied the return criteria above when determining how best to address taxpayer errors on e-filed tax returns. IRS management explained that the issue in question is the impact of e-file rejects on the tax return's statutory received date. Specifically, the received date of a tax return is established by statute as the date the IRS receives a legally valid tax return from the taxpayer. Current e-file processes do not consider a rejected e-file tax return to be "received" until the taxpayer resubmits the rejected return and the IRS accepts it for processing. Recognizing the inconsistency, management stated that they put together a team late in Calendar Year 2019 to look into this issue. However, the team's efforts were suspended due to the COVID-19 pandemic. This team plans to resume its efforts later this year. IRS management noted that a statutory change to the received date of an e-filed tax return would eliminate this inconsistency. However, such a change would require legislative action. As of September 30, 2020, the IRS has not pursued a legislative change.

[3] The IRS refers to these criteria as the Beard test. This test is based on the following tax court case – Beard v. Commissioner, 82 T.C. 766 (1984).

The inability for taxpayers to self-correct errors on accepted e-filed returns results in the inconsistent treatment of taxpayers

E-filed returns are sent through a series of validation checks before they are accepted by the IRS for processing. If a return fails one or more of these validation checks, the IRS rejects the tax return and provides the taxpayer with an explanation of the specific errors identified on his or her return. Once corrected by the taxpayer, the return can then be resubmitted electronically.[4] This unique feature of e-filing enables tax return preparers and taxpayers to fix mistakes before returns are processed, which decreases overall processing time and shortens the time it takes to receive a refund. If the error is not corrected, the taxpayer can still file his or her tax return but the IRS requires the return to be filed on paper. However, the IRS has not developed similar processes to provide taxpayers the opportunity to self-correct errors on accepted e-filed returns that are suspended from processing for manual error resolution.

The following is a hypothetical example of how taxpayer burden is significantly increased and tax refunds are needlessly delayed when the IRS does not provide taxpayers with the opportunity to self-correct an accepted e-file tax return.

> *Taxpayer A receives Advanced Premium Tax Credit (APTC) payments to offset the cost of health insurance purchased from a Healthcare Insurance Marketplace. Taxpayer A e-files his or her tax return but does not report the APTC and does not include Form 8962, Premium Tax Credit, as required. Using third-party data, the IRS determines Taxpayer A received the APTC and identifies the missing Form 8962 as an error. Rather than immediately providing the taxpayer with the opportunity to resubmit his or her return with the missing Form 8962 via e-file, the IRS accepts the e-filed return, suspends processing of the return, and sends the return to the ERS. Once in the ERS, the tax examiner mails the taxpayer a notice asking the taxpayer to send the IRS a Form 8962. The taxpayer in turn must prepare and mail his or her Form 8962 to the IRS.*

The IRS sent 1.1 million e-filed tax returns to the ERS for this error condition as of April 16, 2020. The burden on these taxpayers was compounded by the unprecedented and drastic actions the IRS was forced to take in response to COVID-19 during the 2020 Filing Season. Generally, tax returns are suspended for up to 40 business days while the IRS corresponds with the taxpayer for a missing Form 8962. However, tax returns identified for ERS processing prior to closing its operations in March 2020 will continue to be suspended and the refund held until the IRS can determine whether the information requested is in the unopened mail.

Providing taxpayers the opportunity to self-correct errors is consistent with the IRS strategic goal to better assist taxpayers and can result in cost savings

Consistently providing an opportunity for taxpayers to self-correct errors on their e-filed tax returns is consistent with the IRS's strategic goals as well as the requirements of the Taxpayer First Act of 2019.[5] The IRS's strategic goal is to better assist taxpayers in all interactions with the IRS. The Taxpayer First Act of 2019 requires the IRS Commissioner to redesign the IRS with a focus on serving taxpayers.

As of December 27, 2019, more than 6.4 million (46 percent) of the 13.9 million returns the IRS identified for manual error resolution were e-filed. According to the IRS, it costs $1.79 to work

[4] Some errors require the taxpayer to file on paper even if the error has been corrected.

[5] Pub. L. No. 116-25.

an individual tax return in the Error Resolution program. As such, the IRS expended more than $11.4 million dollars to resolve error conditions associated with e-filed tax returns. Our further analysis of error conditions on these tax returns identified four error codes with particularly high e-filing rates (greater than 90 percent) and volumes (more than 20,000 returns).[6] The IRS identified more than 1.36 million e-filed tax returns between January 1, 2020, and April 16, 2020, with one or more of these four error codes. Using the IRS's estimated cost of $1.79 per return, we estimate the IRS spent more than $2.4 million working these tax returns. Figure 3 provides a description of each of these four error codes along with the action a taxpayer would need to take to self-correct the error before resubmitting his or her e-file return.

Figure 3: Error Codes With E-file Rates More Than 90 Percent Tax Year 2019 Tax Returns As of April 16, 2020

Error Code	Error Description	Action Required to Self-Correct
017	There is an inactive Individual Taxpayer Identification Number in the Primary, Secondary, dependent(s), or qualifying child fields on the tax return.	Correct errors made when entering the Individual Taxpayer Identification Number(s) on the return and resubmit the tax return. If no input errors were made, the taxpayer will need to renew his or her Individual Taxpayer Identification Number by mailing Form W-7, *Application for IRS Individual Taxpayer Identification Number*, to the IRS along with his or her tax return.
073	The amount of losses reported on Form 1040, *U.S. Individual Income Tax Return*, Schedule C, *Profit or Loss from Business (Sole Proprietorship)*, or Form 1040 Schedule F, *Profit or Loss From Farming*, exceed the total loss deduction on the tax return.	Verify the amount of the total loss deduction on the tax return and the loss amount on Schedule C or Schedule F. Correct the amount(s) in error and resubmit the return.
075	Taxable Social Security Verified is not present and Gross Social Security exceeds $72,000 for a Married Filing Joint return, or $36,000 for all other filing statuses.	Correct errors made when entering gross Social Security and/or verify withholdings.
190	There is an APTC reported to the IRS without Form 8962 attached to the return.	Attach Form 8962, recompute Form 1040, and resubmit the return.

Source: TIGTA's review of the IRS's Internal Revenue Manual 3.12.3 and judgement on the actions necessary to correct the return.

[6] Error Codes 017, 073, 075, and 190.

Recommendation 1: The Commissioner, Wage and Investment Division, should develop processes and procedures that provide taxpayers with the opportunity to self-correct errors on accepted e-filed returns that are suspended from processing for manual error resolution in an effort to reduce unnecessary burden on taxpayers and processing costs incurred by the IRS.

> **Management's Response:** The IRS agreed with this recommendation but disagreed with the related outcome measure (see Appendix II for more detailed information on the reported outcome measure). The IRS stood up a cross-functional team in December 2019 to perform a comprehensive evaluation of the Error Resolution program, in particular, reviewing the authority to reject individual income tax returns for missing critical forms and other information. However, this effort was paused in March 2020 due to the COVID-19 pandemic. Any future programming changes that may be identified are contingent on the availability of limited information technology resources and other competing priorities.

Using Existing Return Data to Systemically Resolve Errors Can Further Reduce Error Resolution System Inventory and Resources Expended

In Processing Year 2019, the IRS received 155.8 million individual tax returns with 138 million (89 percent) sent via e-file. With the majority of individual tax returns being e-filed, the IRS has the opportunity to use available tax return data to systemically resolve some errors on e-file tax returns rather than suspending tax returns and delaying refunds to taxpayers. The following are two examples of how the IRS can use additional tax return information to prevent tax returns from being unnecessarily identified for manual verification:

- **Error Code 004** - E-filed tax returns are assigned this error code when the primary name control (the first four characters of the last name) on the tax return does not match the name control in IRS records. The IRS's programming for this error code considers only the first available name control field in the IRS's records despite the IRS often having multiple name controls on file for a taxpayer. When this condition is identified, a return is halted from processing and sent to the ERS. Expanding verification criteria to include a check of all available name controls in IRS records could result in significantly fewer returns being identified as having a name control mismatch. For example, our review of 405,301 e-filed returns that had Error Code 004 set as of March 26, 2020, found that 403,116 (99 percent) of the returns matched at least one name control the IRS had on file. Using the IRS's estimated cost of $1.79 to work an individual tax return in the Error Resolution program, we estimate that expanding the programming for this error code could result in potential cost savings of $721,578 a year. According to the IRS, programming changes have been submitted for Processing Year 2021 that will eliminate the erroneous fallout of e-filed returns for this error code.
- **Error Code 299** - Tax returns are assigned this error code when Line 6 on Form 1040 Schedule 3, *Additional Credits and Payments*, contains an amount. Line 6 is derived from 12 different credit amounts, including the Mortgage Interest Credit, Adoption Credit, and Qualified Electric Motor Vehicle Credit. Every tax return that claims an amount on Schedule 3, Line 6, is sent to the ERS where a tax examiner transcribes the information from the tax return for each of the separate credits into the tax return processing system. The information manually added by the ERS tax examiner for each of the credits claimed on

Schedule 3, Line 6, is available on a supporting form or schedule included in the tax return data for each e-filed tax return that is submitted to the IRS.

If the IRS used the e-filed tax return data for the credits associated with the amount on Schedule 3, Line 6, it could significantly reduce the resources needed to work this error code, as tax examiners would not be required to manually enter this information for e-filed tax returns. Our review of 137,323 tax returns that had Error Code 299 set as of April 16, 2020, found that 134,653 (98 percent) of the returns were e-filed. Using the IRS's estimated cost of $1.79 to work an individual tax return in the Error Resolution program, we estimate expanding the programming for this error code could potentially result in cost savings of $241,029 a year.

Further, when developing error resolution criteria, the IRS does not consider the potential reduction in taxpayer burden and savings to the IRS that can be gained by using additional tax return data to systemically resolve tax return errors.

Modernizing paper tax return processing can enable the IRS to systemically verify more error conditions

Modernizing paper tax return processing can further improve the IRS's ability to systemically verify individual tax returns. As of December 27, 2019, the IRS received 17.6 million individual paper tax returns. In September 2009, we reported that processing individual paper tax returns costs the IRS approximately $190.6 million.[7] In addition, error rates are higher for paper-filed returns due to employee keypunch errors when inputting information from paper returns into IRS computers. We recommended that the IRS implement processes to convert paper returns prepared by individuals using tax software into an electronic format. The IRS agreed with our recommendation. We plan to conduct a separate review to evaluate the IRS's efforts to modernize paper tax return processing.

The Commissioner, Wage and Investment Division, should:

Recommendation 2: Expand processes and procedures for developing error resolution criteria to include an assessment of the potential reduction in taxpayer burden and cost savings to the IRS that can be gained by using additional tax return data to develop systemic error resolution processes.

> **Management's Response:** The IRS agreed with this recommendation and plans to expand its process for developing new error codes to include an assessment of potential burden reduction, cost savings, and programming changes that may be required to implement systemic error resolution processes.

Recommendation 3: Review existing error codes to identify opportunities to expand the use of available tax return data to systemically resolve the error condition for both paper and e-filed tax returns and reduce the number of e-filed tax returns from unnecessarily being identified for manual review.

> **Management's Response:** The IRS agreed with this recommendation and plans to conduct a review of existing error codes and, for those applicable, determine if

[7] TIGTA, Ref. No. 2009-40-130, *Repeated Efforts to Modernize Paper Tax Return Processing Have Been Unsuccessful; However, Actions Can Be Taken to Increase Electronic Filing and Reduce Processing Costs* (Sept. 2009).

additional transcription and/or programming changes would resolve the condition without manual review.

Processes to Systemically Suspend and Reactivate Tax Returns Would Reduce Error Resolution System Program Costs

At times, the IRS needs to suspend some tax returns from return processing while it makes programming updates to its tax processing systems. For example, legislation, which extended numerous tax provisions that had expired at the end of Tax Year 2017, was signed into law on December 20, 2019.[8] Due to the late enactment of this legislation, the IRS could not complete programming updates to its tax processing systems for some of the provisions prior to the start of the 2020 Filing Season. When this happens, returns affected by these provisions are sent to the ERS to be held in ERS inventory until the programming is completed.

The process to suspend and then reactivate tax returns for continued processing is manual and labor intensive. For example, once the return is sent to the ERS, a tax examiner must enter information into IRS tax systems to manually suspend each tax return from processing (*i.e.*, return held in ERS inventory). Once programming is completed, tax examiners must manually reactivate (remove from ERS inventory) each tax return to continue processing. For the 2020 Filing Season, the IRS suspended 98,479 tax returns with the tax extender items in the ERS through February 15, 2020. Using the IRS's estimated cost of $1.79 to work an ERS return, we estimate it cost the IRS $176,277 to suspend and reactivate these tax returns.

When we asked IRS management why a systemic process has not been developed to suspend and reactivate returns, IRS management noted that they would consider requesting this functionality in the future.

Recommendation 4: The Commissioner, Wage and Investment Division, should develop processes to systemically suspend and reactivate tax returns when processing must be suspended until computer programming or other actions necessary to ensure the accurate processing of these returns can be completed.

> **Management's Response:** The IRS agreed with this recommendation and plans to conduct an analysis to determine if programming can streamline suspending and reactivating larger volumes of tax returns. IRS management will take appropriate actions based on the results of their analysis.

Enhancements Are Needed to Improve Management's Ability to More Effectively Monitor Program Performance

Currently, IRS management relies on manual processes to monitor ERS program performance, including ensuring that error codes are operating correctly (*i.e.*, returns with the error conditions are being identified). For example, IRS management stated that they monitor fluctuations in ERS volumes. However, this requires management to manually review approximately 30 different ERS reports, which were created when the ERS was implemented in the 1980's. IRS

[8] Further Consolidated Appropriations Act of 2020 Pub. L. No. 116-94 (2019).

management also stated that they monitor for "hot topics" such as newly created error codes due to recent legislation.

However, these processes do not allow IRS management to identify patterns or trends, which if identified can result in management improving the ERS program. Current capabilities do not enable management to holistically monitor all error codes in an effort to ensure that they are working as designed. For example, our comparison of Processing Year 2020 error code volumes as of February 20, 2020, to Processing Year 2019 volumes as of the same period identified two error codes with significantly increased volumes and one error code with no volume. When we brought these three error codes to IRS management's attention, they were unaware of the fluctuation in the volumes associated with these codes because they do not have processes in place to perform a similar analysis. The following is a summary of the three error codes we identified as having unexpected performance when compared to the prior year.

- **Error Code 190** - This error code is set when advance payment of the Premium Tax Credit is received but no Form 8962 was present. The number of returns identified by Error Code 190 increased 57 percent from 105,887 as of January 31, 2019, to 166,115 as of January 30, 2020. We alerted the IRS on February 7, 2020, that there was a 57 percent increase in the volume of this error when compared to the same time period last year. The IRS researched this and found that 40 percent of the returns with this error code were received from a single return preparation software provider. The software in question did not ask taxpayers whether the APTC was received as part of the preparation of their return. As such, the Form 8962 was not always attached when required. IRS management alerted the software provider on February 12, 2020, and the software provider made changes to its products on March 5, 2020, and March 14, 2020.

  However, we found that 100,176 returns identified between March 13, 2020, and April 16, 2020, with this error code were from this one software provider. This suggests that the issue with the software provider's products had not been remedied. As of April 16, 2020, a total of 556,116 (51 percent) of the e-filed returns with Error Code 190 are attributed to this software provider.

- **Error Code 116** - This error code is set when the withholding on the tax return equals either the Regulated Investment Company Credit or the total tax. The number of returns identified by Error Code 116 increased 128 percent from 1,185 as of January 31, 2019, to 2,706 as of January 30, 2020. On February 7, 2020, we alerted the IRS about a 128 percent increase in volume. IRS management stated that this error code is no longer needed or relevant, and they plan to submit a programming change to delete the error code for Processing Year 2022.

- **Error Code 185** - We found that no tax returns were identified with this error code as of February 20, 2020, which could indicate that the error code is not functioning as intended or may no longer be needed. When we alerted IRS management about Error Code 185, they stated that the code requires further research to evaluate whether to delete the error code or revise the conditions that generate the error code. IRS management stated that their research of the error code determined that it was no longer needed or relevant, and they submitted a programming change to delete the error code for Processing Year 2021.

IRS management agreed that an expanded and enhanced monitoring and reporting system would be beneficial. However, IRS management noted that developing such a system is a low priority from an Information Technology organization perspective. IRS management also stated that it would be helpful if they had the capability to look back at historical ERS data to determine whether a tax return was worked in the ERS and what specific actions were taken by an employee. Currently, the IRS does not have this ability because ERS data are purged at the end of each day and not retained. As such, the IRS is unable to conduct analysis similar to the analysis TIGTA performed. TIGTA was able to conduct its analysis because we established processes for the IRS to provide ERS data on a daily basis, which is then stored for auditor analysis.

The ability to identify the types of trends and concerns we provided is even more critical now as returns may be unnecessarily increasing ERS inventory while the IRS is trying to work through the backlog of inventory caused by the shutdown of operations at tax processing centers due to the pandemic. For example, ERS inventory that remains to be worked has increased by almost 1 million tax returns as of July 31, 2020, when compared to the same time last year. The IRS cannot afford to use resources on cases unnecessarily, especially in the current environment.

The Commissioner, Wage and Investment Division, should:

Recommendation 5: Develop processes to systemically monitor the Error Resolution program, including processes to monitor error code volumes real-time as well as in comparison to historical data.

> **Management's Response:** The IRS agreed with this recommendation and plans to request ERS reports reflecting cumulative year-to-date error code volumes to improve monitoring and trend analysis. However, IRS management stated that programming is subject to information technology resources and other competing priorities.

Recommendation 6: Develop processes and procedures to retain and provide access to historical ERS data, including actions taken by tax examiners.

> **Management's Response:** The IRS agreed with this recommendation and plans to request programming changes to display historical ERS data, including the actions taken by ERS tax examiners. However, IRS management stated that, as with all programming, enhancements are subject to information technology resources and other competing priorities.

Processes and Procedures Are Needed to Identify and Correct Erroneous Entries by Tax Examiners Resulting in Millions of Dollars in Improper Payments

Our review identified 25 unique fields on a tax return (referred to as verified fields) for which an ERS tax examiner, in order to resolve return errors, can override amounts the taxpayer entered on his or her tax return. For example, a tax examiner in the ERS can correct the amounts reported on a tax return for the Child Tax Credit (CTC) and Additional Child Tax Credit (ACTC). To make a correction, the tax examiner enters an amount into these fields, which overwrites the amounts reported by the taxpayer on his or her tax return. However, unlike when tax returns are initially processed, there are no systemic validations in place to identify amounts erroneously entered by the tax examiner that exceed the applicable credit's statutory dollar limit. The following is a hypothetical example of how an erroneous entry goes undetected and results in an erroneous refundable credit payment.

> *Taxpayer A claims $1,000 in the ACTC on his or her tax return for one child. Taxpayer A's return is identified by the ERS as having an error in the taxpayer's computation of income. The ERS tax examiner corrects the computation error. The correction to Taxpayer A's income also results in Taxpayer A being eligible for the maximum allowable amount of the ACTC for one child - $1,400. The ERS tax examiner incorrectly enters $2,000 instead of the maximum allowable $1,400. Because the ACTC verified field is not revalidated by the ERS system after an entry is made, the tax examiner's error goes undetected and Taxpayer A receives an erroneous amount of $600.*

We identified Processing Year 2019 tax returns that had an amount in the CTC or ACTC verified field and recreated the amount of the credit(s) each taxpayer was entitled to receive and compared our amounts to what the taxpayer received from the IRS.[9] Our analysis identified 8,397 tax returns in which taxpayers received $8 million more in the CTC or the ACTC than they were entitled to receive. The amount received in excess ranged from $100 to $16,361.

In addition, we identified 12,147 tax returns in which taxpayers received $9.1 million less in the CTC or the ACTC than they were entitled to receive. Some taxpayers received nearly $8,000 less than they were entitled to receive.

We discussed our analysis with IRS management, and they acknowledged that ERS verified fields do not have the same systemic controls that are used during tax return processing to ensure that tax examiners do not erroneously enter amounts exceeding allowable limits, but they will consider adding such controls.

The Commissioner, Wage and Investment Division, should:

Recommendation 7: Develop processes and procedures to identify and correct tax examiner entries in verified fields that exceed statutory limits, including a process to ensure that tax returns with verified amounts are systemically reprocessed through ERS programming before being released for processing.

> **Management's Response:** The IRS agreed with this recommendation and plans to request programming changes to add controls to verified fields. However, IRS management stated that programming is subject to information technology resources and other competing priorities.

Recommendation 8: Review the 8,397 tax returns we identified in which taxpayers received more in the CTC or the ACTC than they were entitled to receive and take actions to recover the erroneous credits.

> **Management's Response:** The IRS agreed with this recommendation and plans to review the 8,397 tax returns and correct the CTC or the ACTC, as appropriate.

Recommendation 9: Review the 12,147 tax returns we identified in which taxpayers did not receive the amount of the CTC or the ACTC to which they were entitled and ensure that they receive their allowable credit amount.

[9] The CTC verified field includes the Other Dependent Credit. As such, our analysis is also evaluating the Other Dependent Credit when we refer to the CTC.

Management's Response: The IRS agreed with this recommendation and plans to review the 12,147 tax returns and reinstate the CTC or the ACTC, as appropriate.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to evaluate the efficiency and effectiveness of the ERS. To accomplish our objective, we:

- Met with IRS management to determine whether IRS processes for developing ERS criteria include an assessment of alternative systemic options to more efficiently address error conditions.
- Performed data analysis to identify error codes with a high number of e-filed tax returns and determined whether the ERS was the best place to resolve the issue.
- Met with ERS tax examiners to identify concerns they have with current processes.
- Met with IRS management and reviewed the Internal Revenue Manual to identify the processes and procedures for monitoring the ERS during the filing season.
- Using IRS ERS data for individual tax returns, compared the individual error code volumes from Processing Year 2019 to Processing Year 2020 in real-time to identify significant changes in error code volumes or e-filed rates, and determined whether the IRS identified the error codes during its monitoring of the ERS.
- Determined whether the IRS has systemic controls in place over the ERS verified fields.

Performance of This Review

This review was performed with information obtained from the IRS Wage and Investment Division located in Covington, Kentucky, and the tax processing centers located in Fresno, California; Kansas City, Missouri; and Ogden, Utah, during the period November 2019 through July 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services); Deann L. Baiza, Director; Jeffrey D. Cullum, Audit Manager; Michael J. Bibler, Lead Auditor; Gwendolyn S. Gilboy, Senior Auditor; Jane G. Lee, Senior Auditor; Aranxa J. Delgado, Auditor; Ryan M. Kenaley, Auditor; and Sandy Ramos, Auditor.

Validity and Reliability of Data from Computer-Based Systems

During this review, we obtained extracts of data from the IRS's ERS 0101 individual return file[1] for Processing Years 2019 and 2020, as well as information from the IRS's Modernized Tax

[1] The ERS 0101 file includes tax returns that were sent to the Error Resolution function and the reason why.

Return Database Files[2] and National Account Profile[3] for Processing Year 2020, and Individual Returns Transaction File[4] and Individual Master File[5] for Processing Year 2019, that were available on TIGTA's Data Center Warehouse. Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected random samples of each extract and verified that the data in the extracts were the same as the data captured in the IRS's Integrated Data Retrieval System.[6] We also performed analysis to ensure the validity and reasonableness of our data, such as ranges of dollar values, transaction dates, and tax periods. Based on the results of our tests, we believe that the data used in our review were reliable.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the processes to develop, test, and monitor error codes. We evaluated these controls by reviewing IRS procedures listed in the Internal Revenue Manual, meeting with IRS management and subject matter expects, and reviewing relevant documentation.

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[2] The legal repository for original e-filed returns received by the IRS through the Modernized e-File system.

[3] The National Account Profile database is a compilation of selected entity data from various IRS Master Files that also includes data from the Social Security Administration.

[4] A database the IRS maintains that contains information on the individual tax returns it receives.

[5] The IRS database that maintains transactions or records of individual tax accounts.

[6] IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

Appendix II

Outcome Measures

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

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $2,438,358 in labor costs on 1,362,211 tax returns that were unnecessarily sent to the ERS because the IRS does not consistently use its e-filing reject processes to allow taxpayers to self-correct their returns (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

We obtained ERS 0101 data for Processing Year 2020. We limited our review to all error codes assigned to Tax Year 2019 tax returns as of April 16, 2020. From this population, we filtered for error codes that were assigned to at least 20,000 tax returns and at least 90 percent of the tax returns were e-filed. We identified four error codes, 017, 073, 075, and 190, on 1,362,211 distinct tax returns in which the IRS and taxpayers would benefit from allowing taxpayers to self-correct errors on their e-filed tax returns before the returns are accepted for processing. According to the IRS, it costs $1.79 to work an individual tax return in the Error Resolution program. If the IRS had allowed these taxpayers to self-correct errors, the IRS could have potentially saved $2,438,358 (1,362,211 x $1.79).

Management's Response: The IRS disagreed with the outcome measure. IRS management indicated that the majority of the outcome is related to Error Code 190 – *APTC reported to the IRS with no Form 8962 attached to the return*. IRS management stated that rejecting e-file returns with this condition would not provide the taxpayers the right to challenge the accuracy of third-party data before the data may be used to increase the amount of tax they owe.

Office of Audit Comment: IRS management incorrectly implies that we recommended the IRS reject an e-filed return. We recommended that the IRS develop processes and procedures to provide these taxpayers an opportunity to self-correct their accepted return (*i.e.*, provide the IRS with the missing Form 8962). Allowing taxpayers to self-correct a return does not preclude the taxpayer from challenging the accuracy of the third-party data that the IRS uses to identify these types of discrepancies. For taxpayers who do not self-correct their return, current ERS procedures could then be used to further address this discrepancy.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 1,362,211 tax returns that were unnecessarily sent to the ERS because the IRS does not consistently use its e-filing reject processes to allow taxpayers to self-correct their returns (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

We obtained ERS 0101 data for Processing Year 2020. We limited our review to all error codes assigned to Tax Year 2019 tax returns as of April 16, 2020. From this population, we filtered for error codes that were assigned to at least 20,000 tax returns and at least 90 percent of the tax returns were e-filed. We identified four error codes, 017, 073, 075, and 190, on 1,362,211 distinct tax returns in which the IRS and taxpayers would benefit from allowing taxpayers to self-correct errors on their e-filed tax returns before the returns are accepted for processing.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $961,196 in labor costs on 536,981 tax returns that were unnecessarily sent to the ERS as a result of the IRS not using existing return data to systemically resolve errors (see Recommendations 2 and 3).

Methodology Used to Measure the Reported Benefit:

We obtained ERS 0101 data for Processing Year 2020. We identified two error codes (Error Code 004 and Error Code 299) for which the IRS would benefit from using existing return data on e-filed tax returns to systemically resolve errors rather than manually work them in the ERS.

- We identified 405,301 Processing Year 2020 e-filed tax returns that were assigned Error Code 004 as of March 26, 2020. Using National Account Profile data as of March 26, 2020, we were able to match the name controls reported on 403,116 of these returns to a name control the IRS already had on file in the National Account Profile. According to the IRS, it costs $1.79 to work an individual tax return in the ERS program. If the IRS were to update its programming for this issue, it could have potentially saved $721,578 (403,116 x $1.79).
- We identified 134,653 e-filed Tax Year 2019 tax returns that were assigned Error Code 299 as of April 16, 2020. Every tax return that claims an amount on Schedule 3, Line 6, is sent to the ERS where a tax examiner adds the information from the tax return. According to the IRS, it costs $1.79 to work an individual tax return in the ERS program. If the IRS were to update its programming to automatically transcribe this information, it could have potentially saved $241,029 (134,653 x $1.79).

We found that there were 788 tax returns that had both Error Codes 004 and 299 set. In an effort to not count these returns twice, we will remove the returns and dollars ($1,411 = 788 x $1.79) below.

Returns: 403,116 + 134,653 – 788 = 536,981

Dollars: $721,578 + $241,029 – $1,411 = $961,196

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 536,981 tax returns that were unnecessarily sent to the ERS as a result of the IRS not using existing return data to systemically resolve errors (see Recommendations 2 and 3).

Methodology Used to Measure the Reported Benefit:

We obtained ERS 0101 data for Processing Year 2020. We identified two error codes (Error Code 004 and Error Code 299) for which the IRS would benefit from using existing return data on e-filed tax returns to systemically resolve errors rather than manually work them in the ERS.

- We identified 405,301 Processing Year 2020 e-filed tax returns that were assigned Error Code 004 as of March 26, 2020. Using National Account Profile data as of March 26, 2020, we were able to match the name controls reported on 403,116 of these returns to a name control the IRS already had on file in the National Account Profile.
- We identified 134,653 e-filed Tax Year 2019 tax returns that were assigned Error Code 299 as of April 16, 2020. Every tax return that claims an amount on Schedule 3, Line 6, is sent to the ERS where a tax examiner adds the information from the tax return.

We found that there were 788 tax returns that had both Error Codes 004 and 299 set. In an effort to not count these returns twice, we will remove the returns and dollars ($1,411 = 788 x $1.79) below.

Returns: 403,116 + 134,653 – 788 = 536,981

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $176,277 in labor costs on 98,479 tax returns that had to be manually suspended and reactivated in the ERS (see Recommendation 4).

Methodology Used to Measure the Reported Benefit:

According to the IRS, during the 2020 Filing Season, it suspended 98,479 e-filed tax returns in the ERS through February 15, 2020, due to the late passage of tax extender items while waiting for updates to programming. According to the IRS, it costs $1.79 to work an individual tax return in the ERS program. As such, we estimate it cost the IRS $176,277 (98,479 x $1.79) to manually suspend and reactivate the 98,479 e-filed tax returns.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; $8,033,779 erroneous CTC and ACTC claims paid on 8,397 tax returns because of tax examiner errors in the ERS verified fields (see Recommendations 7 and 8).

Methodology Used to Measure the Reported Benefit:

We used the Individual Return Transaction Files and the Individual Master File on TIGTA's Data Center Warehouse to identify Processing Year 2019 tax returns that had an amount in the CTC or ACTC verified fields.[1] We then recomputed the allowable CTC and ACTC amount to determine whether the amounts entered in the verified fields were correct.

We limited our assessment to tax returns with four or fewer dependents because we did not have the necessary information to calculate the CTC or the ACTC when there were more than four dependents. We also limited our assessment to returns that filed Form 2555, *Foreign Earned Income*, or did not claim the Adoption Credit, Mortgage Certificate Credit, or Residential Energy Credit, as all of the necessary information from tax returns that claim these credits was not available to allow us to reliably calculate CTC, Other Dependent Credit, or ACTC amounts on these returns.

For the remaining tax returns, we computed the CTC or the ACTC each taxpayer was entitled to receive. We considered the taxpayer's correct adjusted tax liability when computing the allowable CTC. As such, the differences we identified represent a dollar-for-dollar benefit to the taxpayer. We then compared the allowable CTC or ACTC amount to the amount the taxpayers actually received and identified those in which the difference was greater than or equal to $100. Our analysis identified 8,397 taxpayers who received $8,033,779 more in the CTC or the ACTC than they were entitled.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 12,147 tax returns that were incorrectly disallowed $9,092,664 in CTC and ACTC claims because of tax examiner errors in ERS verified fields (see Recommendations 7 and 9).

Methodology Used to Measure the Reported Benefit:

We used the Individual Return Transaction Files and the Individual Master File on TIGTA's Data Center Warehouse to identify Processing Year 2019 tax returns that had an amount in the CTC or ACTC verified fields.[2] We then recomputed the allowable CTC and ACTC amount to determine whether the amounts entered in the verified fields were correct.

We limited our assessment to tax returns with four or fewer dependents because we did not have the necessary information to calculate the CTC or the ACTC when there were more than four dependents. We also limited our assessment to returns that filed Form 2555 or did not claim the Adoption Credit, Mortgage Certificate Credit, or Residential Energy Credit, as all of the necessary information from returns that claim these credits was not available to allow us to reliably calculate CTC, Other Dependent Credit, or ACTC amounts on these returns.

For the remaining tax returns, we computed the CTC or the ACTC each taxpayer was entitled to receive. We considered the taxpayer's correct adjusted tax liability when computing the allowable CTC. As such, the differences we identified represent a dollar-for-dollar benefit to the taxpayer. We then compared the allowable CTC or ACTC amount to the amount the taxpayers actually received and identified those in which the difference was greater than or equal to $100.

[1] Our analysis did not identify returns filed using Form 1040-PR or Form 1040-SS, *U.S. Self-Employment Tax Return (Including the Additional Credit for Bona Fide Residents of Puerto Rico)*, as these returns have different eligibility requirements.

[2] Our analysis did not identify returns filed using Form 1040-PR or Form 1040-SS, as these returns have different eligibility requirements.

Our analysis identified 12,147 taxpayers who received $9,092,664 less in the CTC or the ACTC than they were entitled.

Appendix III

Management's Response to the Draft Report

COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

November 25, 2020

MEMORANDUM FOR MICHAEL E MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin
Digitally signed by Kenneth C. Corbin
Date: 2020.11.25 15:08:16 -05'00'
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Expansion of Self-Correction for Electronic Filers and Other Improvements Could Reduce Taxpayer Burden and Costs Associated With Tax Return Error Resolution (Audit # 201940007)

Thank you for the opportunity to review and comment on the subject draft report. Engaging taxpayers to self-correct errors identified on their tax returns at the time of filing has been an objective of the IRS since the advent of electronic filing in 1991. As our platforms for receiving income tax returns electronically have evolved, a greater number of error conditions and more comprehensive explanations of those errors have been used to help taxpayers and tax return preparers identify and resolve the conditions causing their returns to have been rejected at the time of filing. In most cases, the errors are corrected, the returns resubmitted, and processing is completed without additional delay.

The self-correction of tax returns provides faster service to taxpayers, in terms of quicker settlement of their returns and issuance of any refunds due to them. It also permits the IRS to administer the tax system at a lower cost to the public by taking full advantage of automated, rather than manual, processing. However, there are barriers to more widespread use of self-correction for electronic returns due to a conflict between limitations of our automated processing systems and the definition of what constitutes a valid tax return. Taxpayers have asserted that a return rejected by the IRS was a valid return under the law even though they failed to correct the return and the IRS did not process it. In addressing whether a return was valid, the courts have adopted a four-pronged test, as summarized in the United States Tax Court case of *Beard vs. Commissioner*[1].

[1] Beard v. Commissioner, 82 T.C. 766 (1984).

To determine whether a document constitutes a valid return, there must first be sufficient data to calculate tax liability; second, the document must purport to be a return; third, there must be an honest and reasonable attempt to satisfy the requirements of the tax law; and fourth, the taxpayer must execute the return under penalties of perjury. Consequently, a return containing errors, inconsistencies, or omissions that must be addressed prior to completing processing will, in most cases, be deemed as valid. Our systems, however, will not recognize the return as filed until the corrected return is resubmitted. When a return needing correction is rejected, corrected, and refiled prior to its due date, there is generally no impact to the taxpayer in terms of penalties or interest due on unpaid balances, but when a corrected return is received after the due date for filing, penalties and interest will be computed and assessed on the subsequent receipt date of the corrected return and not that of the original submission. This causes additional taxpayer and administrative burden to correct the erroneous assessments.

As the volume of electronic filing has increased, this issue has become more prominent. Recognizing that our processes for treating various errors were inconsistent, rejecting for self-correction or referring the return to the Error Resolution System for manual resolution, a cross-functional work group was established in December 2019 to identify discrepancies in our error treatment processes, evaluate potential solutions, and make recommendations on how best to eliminate the challenges currently preventing us from maximizing the use of self-correction. The efforts of the work group were paused in March 2020 as a result of the effects of the novel coronavirus pandemic; however, its work will be resumed as soon as practically possible.

We appreciate the nine recommendations made in the report and are planning corrective actions; however, we disagree with the $2.4 million outcome measure for funds put to better use. Error Code 190 represents more than 80 percent of the 1,362,211 returns and over $2 million included in the measure. The error code identifies a potential discrepancy between the return and third-party information reported to the IRS. Under the Tax Code, taxpayers have the right to challenge the accuracy of third-party data before it may be used to increase the amount of tax to which they have previously agreed. Rejecting electronic returns for this condition would not provide that right to them.

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

Attachment

Attachment

Recommendation

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should develop processes and procedures that provide taxpayers with the opportunity to self-correct errors on accepted e-filed returns that are suspended from processing for manual error resolution in an effort to reduce unnecessary burden on taxpayers and processing costs incurred by the IRS.

CORRECTIVE ACTION

The IRS stood up a cross-functional team in December 2019 to perform a comprehensive evaluation of the Error Resolution program, in particular, reviewing the authority to reject individual income tax returns for missing critical forms and other information. However, this effort was paused in March 2020 due to the COVID-19 pandemic. Any future programming changes that may be identified are contingent on the availability of limited Information Technology (IT) resources and other competing priorities. Consequently, we cannot provide an implementation date.

IMPLEMENTATION DATE

N/A

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.

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 2

Expand processes and procedures for developing error resolution criteria to include an assessment of the potential reduction in taxpayer burden and cost savings to the IRS that can be gained by using additional tax return data to develop systemic error resolution processes.

CORRECTIVE ACTION

We will expand our process for developing new error codes to include an assessment of potential burden reduction, cost savings, and programming changes that may be required to implement systemic error resolution processes.

2

IMPLEMENTATION DATE
December 15, 2021

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 3
Review existing error codes to identify opportunities to expand the use of available tax return data to systemically resolve the error condition for both paper and e-filed tax returns and reduce the number of e-filed tax returns from unnecessarily being identified for manual review.

CORRECTIVE ACTION
We will conduct a review of existing Error Codes and, for those applicable, determine if additional transcription and/or programming changes would resolve the condition without manual review.

IMPLEMENTATION DATE
December 15, 2021

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

RECOMMENDATION 4
The Commissioner, Wage and Investment Division, should develop processes to systemically suspend and reactivate tax returns when processing must be suspended until computer programming or other actions necessary to ensure the accurate processing of these returns can be completed.

CORRECTIVE ACTION
We will conduct an analysis to determine if programming can streamline suspending and reactivating larger volumes of tax returns. We will take the appropriate action based on the results of our analysis.

IMPLEMENTATION DATE
March 15, 2021

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

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

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 5
Develop processes to systemically monitor the Error Resolution program, including processes to monitor error code volumes real-time as well as in comparison to historical data.

CORRECTIVE ACTION
We will request Error Resolution System (ERS) reports reflecting cumulative year-to-date error code volumes to improve monitoring and trend analysis. Programming is subject to IT resources and other competing priorities; therefore, we cannot provide a date for implementation.

IMPLEMENTATION DATE
N/A

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.

4

RECOMMENDATION 6
Develop processes and procedures to retain and provide access to historical ERS data, including actions taken by tax examiners.

CORRECTIVE ACTION
We will request programming changes to display historical ERS data, including the actions taken by ERS tax examiners. As with all programming, enhancements are subject to IT resources and other competing IT priorities; therefore, we cannot provide a date for implementation.

IMPLEMENTATION DATE
N/A

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 7
Develop processes and procedures to identify and correct Tax Examiner entries in verified fields that exceed statutory limits, including a process to ensure that tax returns with verified amounts are systemically reprocessed through the ERS programming before being released for processing.

CORRECTIVE ACTION
We will request programming changes to add controls to verified fields. Programming is subject to IT resources and other competing priorities; therefore, we cannot provide a date for implementation.

IMPLEMENTATION DATE
N/A

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.

5

RECOMMENDATION 8
Review the 8,397 tax returns we identified in which taxpayers received more in the CTC or ACTC than they were entitled to receive and take actions to recover the erroneous credits.

CORRECTIVE ACTION
We will review the 8,397 tax returns and correct the Child Tax Credit (CTC) or Additional Child Tax Credit (ACTC), as appropriate.

IMPLEMENTATION DATE
October 15, 2021

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 9
Review the 12,147 tax returns we identified in which taxpayers did not receive the amount of the CTC or ACTC to which they were entitled and ensure that they receive their allowable credit amount.

CORRECTIVE ACTION
We will review the 12,147 tax returns and reinstate the CTC or ACTC, as appropriate.

IMPLEMENTATION DATE
October 15, 2021

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.

Appendix IV

Abbreviations

ACTC	Additional Child Tax Credit
APTC	Advanced Premium Tax Credit
COVID-19	Coronavirus Disease 2019
CTC	Child Tax Credit
e-file(d); e-filing	Electronically File(d); Electronic Filing
ERS	Error Resolution System
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration

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

(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.