



Treasury Inspector General for Tax Administration Office of Audit

A SERVICE-WIDE STRATEGY IS NEEDED TO ADDRESS GROWING NONCOMPLIANCE WITH INDIVIDUAL RETIREMENT ACCOUNT CONTRIBUTION AND DISTRIBUTION REQUIREMENTS

Issued on March 29, 2010

Highlights

Highlights of Report Number: 2010-40-043 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

Individual Retirement Accounts (IRA) are a key tax-preferred way for individuals to save for retirement and are an increasingly important way for individuals to roll over savings from pension plans. The Investment Company Institute estimated that assets held in IRAs were \$3.6 trillion in 2008 and that IRAs represented more than 26 percent of total United States retirement assets. Individual noncompliance with IRA excess contribution and minimum distribution requirements continues to grow, resulting in significant revenue losses to the Federal Government.

WHY TIGTA DID THE AUDIT

A prior TIGTA review of Tax Year (TY) 2005 IRA information concluded that Internal Revenue Service (IRS) processing procedures for IRAs do not ensure that individuals are complying with IRA rules. This audit was initiated to assess IRS actions to identify and correct individual excess contributions to IRAs and nondisbursements of required minimum distributions from IRAs.

WHAT TIGTA FOUND

Our review of TY 2006 and TY 2007 IRA information showed that individual noncompliance with IRA excess contribution and minimum distribution requirements continues to grow since our previous review. TIGTA identified potential revenue losses associated with:

- 295,141 individuals improperly making excess contributions totaling \$812,339,722 for TY 2006 and \$756,792,044 for TY 2007. TIGTA estimated tax revenue losses of \$94,150,444 in excise tax and \$17,574,276 in income tax for these 2 tax years.

- 255,498 individuals not taking required minimum distributions totaling \$348,480,200 for TYs 2006 and 2007. TIGTA estimated tax revenue losses of \$174,249,074 in excise tax for these 2 tax years.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Deputy Commissioner for Services and Enforcement ensure a Service-wide strategy is developed to address retirement provision noncompliance. This strategy should include the development of processes to identify individuals who do not comply with retirement provisions, along with compliance efforts to address the noncompliance.

In their response to the report, IRS officials agreed that a Service-wide strategy is warranted. Executives from the Wage and Investment and Tax Exempt and Government Entities Divisions agreed to share the responsibility for development of this long-term strategy. This strategy will not only address compliance, but will also include plans for outreach and guidance for individual taxpayers and employee plan organizations.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2010reports/201040043fr.pdf>

Email Address: inquiries@tigta.treas.gov
Web Site: <http://www.tigta.gov>

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