



Treasury Inspector General for Tax Administration Office of Audit

EVALUATION OF THE PLANNING, COMPUTATION, AND ISSUANCE OF THE RECOVERY REBATE CREDIT

Issued on September 9, 2009

Highlights

Highlights of Report Number: 2009-40-129 to the Internal Revenue Service Deputy Commissioner for Operations Support and Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

The recovery rebate credit is provided to those eligible individuals who may not have received an economic stimulus payment or who are entitled to an additional credit. Overall, the IRS successfully planned for the implementation of the recovery rebate credit. The IRS issued more than \$96 billion in advanced economic stimulus payments to more than 119 million individuals in Calendar Year 2008 and approximately \$8.5 billion in recovery rebate credits to almost 21 million taxpayers as of April 17, 2009. The IRS was able to achieve the intent of Congress by providing billions of dollars to millions of Americans.

WHY TIGTA DID THE AUDIT

The objective of this review was to evaluate the effectiveness of the Internal Revenue Service's (IRS) efforts to plan and implement the Tax Year 2008 Recovery Rebate Credit. This was our fourth and final review in a series of reviews that evaluated the IRS implementation of the Economic Stimulus Act of 2008 from the initial advanced economic stimulus payments through issuance of the recovery rebate credits.

WHAT TIGTA FOUND

Overall, the IRS successfully planned for the implementation of the recovery rebate credit. A number of efforts were initiated to educate and assist individuals on the credit. In addition, the IRS correctly calculated the credit on 99.6 percent (approximately 101.7 million) of the tax returns processed as of April 17, 2009.

However, TIGTA identified 399,099 tax returns (0.4 percent) for which our calculation of the recovery rebate credit and the IRS' calculation did not agree. Our analysis indicated that 258,550 taxpayers did not receive \$84.6 million to which they were entitled and 140,549 taxpayers received \$60.6 million more in

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credits than they were entitled to receive. Differences resulted from errors in the IRS' computer programming as well as procedural errors in resolving IRS and taxpayer computation errors.

In addition to the computation errors identified, our review identified a programming error that put \$1.6 billion at risk. TIGTA notified the IRS in December 2008 of a programming error that could have incorrectly allowed almost 6.4 million taxpayers who could be claimed as a dependent on someone else's tax return to receive almost \$1.6 billion in erroneous recovery rebate credits to which they were not entitled. The IRS took immediate action to correct this programming error.

Finally, legislation did not provide the IRS with math error authority to prevent individuals without valid Social Security Numbers from receiving the recovery rebate credit. Although the legislation prohibited individuals without a valid Social Security Number from receiving the rebate credit, the IRS was not provided the authority needed to effectively prevent the issuance of the credit to these individuals at the time a tax return was processed.

As a result, the IRS erroneously provided more than \$27 million in recovery rebate credits to more than 44,000 taxpayers who did not have a valid Social Security Number. IRS management informed us that it had raised concerns to the Assistant Secretary of the Treasury for Tax Policy about the lack of math error authority for this issue. However, no legislative proposal was put forth to provide this authority.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, issue recovery payments to individuals who did not receive the recovery rebate credit to which they were entitled as a result of programming and Error Resolution function errors.

In their response to the report, IRS officials agreed with the intent of the recommendations. The IRS is currently reviewing the data provided by TIGTA and plans to provide appropriate taxpayer relief, if warranted, based on the results of its review.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2009reports/200940129fr.pdf>.

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