



Treasury Inspector General for Tax Administration Office of Audit

POTENTIALLY IMPROPER HEALTH CARE CREDIT CLAIMS BY TAX-EXEMPT ORGANIZATIONS ARE GENERALLY BEING IDENTIFIED FOR REVIEW, BUT IMPROVEMENTS ARE NEEDED

Issued on January 17, 2014

Highlights

Highlights of Report Number: 2014-13-005 to the Internal Revenue Service Acting Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

During Tax Year 2012, tax-exempt organizations claimed more than \$73 million in Small Business Health Care Tax Credits provided for under the Patient Protection and Affordable Care Act. The Tax Exempt and Government Entities Division designed controls that systemically identify questionable credits for potential examination; however, additional controls would provide further assurance that potentially improper claims for the credit are identified and addressed effectively and efficiently.

WHY TIGTA DID THE AUDIT

The overall objective of this review was to assess whether the IRS has controls in place to provide reasonable assurance that tax-exempt organizations are accurately claiming the credit.

WHAT TIGTA FOUND

The Tax Exempt and Government Entities Division designed computer routines that identify potentially improper credits claimed by tax-exempt organizations for possible examination prior to processing the tax returns (prerefund). Since implementing these processes, the IRS reports that it has denied more than \$1.5 million in credits that it had determined were improper.

From January 1 through July 23, 2012, the Tax Exempt and Government Entities Division reported that it had initiated prerefund examinations for 43 percent of the potentially improper credits identified by its computer routines. Because the IRS does not conduct prerefund examinations on all potentially improper credits, it is important that the IRS focus its limited resources on the most productive prerefund examinations.

However, TIGTA found that the Tax Exempt and Government Entities Division's compliance plan for the credit did not include plans for periodically reviewing computer routines to determine if any changes are needed based on prerefund examination results. In addition, the IRS does not have a post-refund compliance strategy for the credit. Based on TIGTA's concerns, IRS officials indicated that they have begun to analyze the outcomes of prerefund examinations and initiated post-refund examinations. Lastly, TIGTA determined that amended returns are not always subjected to the same level of review as original returns.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Acting Commissioner, Tax Exempt and Government Entities Division, complete work to analyze and document the outcomes of prerefund examinations, complete post-refund examinations, periodically update the compliance plan for the credit, and ensure that amended returns are subjected to the same reviews as original returns.

In their response to the report, IRS officials stated that they generally agreed with the recommendations and plan to take or have taken corrective actions.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2014reports/201413005fr.pdf>.