



Treasury Inspector General for Tax Administration Office of Audit

ADDITIONAL ACTIONS ARE NEEDED TO ENSURE THAT IMPROPER FUEL TAX CREDIT CLAIMS ARE DISALLOWED

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Highlights

Highlights of Report Number: 2014-30-067 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed and the Wage and Investment Divisions.

IMPACT ON TAXPAYERS

Taxpayers are allowed to claim a fuel tax credit on their individual tax returns to offset the amount of any Federal taxes paid on fuel used for off-highway business purposes, such as farming or commercial fishing. In Processing Years 2011 through 2013, approximately \$694 million in fuel tax credits were claimed by individual taxpayers. A significant number of the claims for these credits are potentially improper. For the past several years, the IRS has included fuel tax credit scams on its annual list of the "Dirty Dozen" tax scams.

WHY TIGTA DID THE AUDIT

This audit was initiated to evaluate whether opportunities exist to improve the return classification and examination processes for individual income tax returns claiming a fuel tax credit.

WHAT TIGTA FOUND

Our evaluation of data from Processing Years 2011 through 2013 indicates that a total of 4,004 Forms 1040, *U.S. Individual Income Tax Return*, claiming a fuel tax credit at or above the threshold amount for manual screening were not properly coded for review, and credits totaling approximately \$47.2 million may have been erroneously released to taxpayers. Furthermore, there were 198,395 returns with fuel tax credit claims below the manual screening threshold amount that were questionable because they did not report any business income to support the business use of the fuel. These lower claim amounts are generally not selected for review due to current IRS policy. As a result, approximately \$120.5 million in questionable fuel tax credit claims may have been allowed in the three years reviewed.

TIGTA's evaluation indicates that a combination of factors caused the questionable claims to be released and that actions can be taken at the processing and

examination levels to better ensure that fuel tax credit claims are refunded only when appropriate. Without improved controls and processes to prevent the issuance of questionable refunds, millions of dollars in Federal tax revenue will be lost each year.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) use systemic controls to ensure that all Forms 1040 claiming a fuel tax credit at the threshold amount or above are manually reviewed prior to refund issuance; 2) if auditing resources become available, consider lowering the systemic threshold amount for selecting and reviewing Forms 1040 claiming a fuel tax credit that report only wage income; and 3) provide managers and examiners with additional training and procedures to determine acceptable supporting documentation for fuel tax credit claims as well as to review amended returns when the original return has been adjusted beyond removing the fuel tax credit.

In response to the report, IRS officials agreed with the recommendations and stated that they have taken or plan to take appropriate 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/201430067fr.pdf>.

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