Treasury Inspector General for Tax Administration
Office of Audit

AMENDED TAX RETURN FILING AND PROCESSING NEEDS TO BE MODERNIZED TO REDUCE ERRONEOUS REFUNDS, PROCESSING COSTS, AND TAXPAYER BURDEN

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Highlights

Highlights of Report Number: 2014-40-028 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Taxpayers can file Form 1040X, *Amended U.S. Individual Income Tax Return*, to correct previously filed income tax returns. Claims filed on an amended tax return can relate to any item of income, loss, exclusion, deduction, or credit and may result in a tax refund. The IRS only allows amended tax returns to be filed on paper. As a result, there is additional taxpayer burden and increased potential for erroneous tax refund payments.

WHY TIGTA DID THE AUDIT

The IRS received more than 4 million amended tax returns in Fiscal Year 2012. This audit was initiated because previous TIGTA audits have identified problems with IRS processes for verifying claims on amended tax returns. The objective of this review was to determine whether the IRS has controls in place to ensure that claims for refunds on amended tax returns are appropriate.

WHAT TIGTA FOUND

The IRS has developed extensive systemic controls to verify the accuracy of tax refunds claimed on original paper and electronically filed (e-filed) tax returns. **********2**********2**********2**********2**********2**********2**********. For example, TIGTA's review of a statistical sample of 259 amended tax returns claiming tax refunds of $500 or more in Fiscal Year 2012 identified 44 (17 percent) tax returns for which the IRS issued potentially erroneous tax refunds totaling $103,270.

Based on the sample results, TIGTA estimates the IRS may have issued more than $439 million in potentially erroneous tax refunds claimed on 187,421 amended tax returns during Fiscal Year 2012. As such, the IRS could issue more than $2.1 billion in potentially erroneous tax refunds claimed on amended tax returns over the next five years.

To reduce erroneous refunds, processing costs, and taxpayer burden, the IRS could revise Form 1040, *U.S. Individual Income Tax Return*, to allow for corrections to original tax return filings and expand e-filing to include amended tax returns. For example,********2**********2**********2**********2**********. TIGTA estimates that the IRS could have potentially saved more than $17 million in processing costs during Fiscal Year 2012 if it had allowed taxpayers to e-file their amended tax return.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, revise Form 1040 to enable taxpayers to amend their original tax return using this form, expand e-filing to include amended tax returns, and conduct a review of the 44 amended tax returns TIGTA identified for which potentially erroneous refunds were issued to determine the proper tax liability.

The IRS agreed with two of TIGTA's recommendations and disagreed with one recommendation. Although the IRS disagreed with revising Form 1040, the IRS plans to consider changing the format and appearance of Form 1040X. The IRS also plans to consider e-filing of amended tax returns based on available funding and resources. The IRS reviewed the 44 potentially erroneous refund returns and generally agreed that procedures were not correctly followed for those identified as having processing errors.

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/201440028fr.pdf.

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