



Treasury Inspector General for Tax Administration Office of Audit

PROCESSES ARE NEEDED TO MORE EFFECTIVELY ADDRESS POTENTIALLY ERRONEOUS EXCESS SOCIAL SECURITY TAX CREDIT CLAIMS

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Highlights

Highlights of Report Number: 2014-40-058 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Federal Insurance Contributions Act (FICA) tax is a U.S. Federal payroll tax imposed to fund Social Security and Medicare. The Social Security tax portion of the FICA tax is computed as a percentage of wages earned. The employee's portion of the Social Security tax is withheld from the employee's wages by most employers and paid to the IRS on the employee's behalf. Individuals with more than one employer whose Social Security tax withholding exceeds the limit for a given tax year may be entitled to a credit (hereinafter referred to as the Excess Social Security Tax Credit or the credit) on their tax returns.

WHY TIGTA DID THE AUDIT

Individuals can claim the Excess Social Security Tax Credit as a refundable credit on Form 1040, *U.S. Individual Income Tax Return*. In Tax Year 2011, more than 1.3 million tax returns included Excess Social Security Tax Credit claims for more than \$1.6 billion. TIGTA initiated this audit to determine the effectiveness of the IRS's processes to ensure that taxpayers are accurately claiming excess Social Security tax withholding credits.

WHAT TIGTA FOUND

TIGTA reviewed a statistically valid sample of 322 of 87,319 tax returns for which the total amount of Social Security tax withholding employers reported to the IRS on Forms W-2, *Wage and Tax Statement*, did not support the credit amount claimed by the taxpayers on their tax returns. The review found that 231 (72 percent) returns had potentially erroneous claims totaling \$177,854.

Neither the information reported on or included with these 231 tax returns nor our research of wage and withholding information reported by employers supported

the amount of Excess Social Security Tax Credit claimed by these individuals.

Of the 231 tax returns with questionable Excess Social Security Tax Credit claims, 40 could have been identified as questionable at the time the tax returns were processed. The remaining 191 (83 percent) of the 231 tax returns involved discrepancies between the credit claimed by the taxpayer and the amount the employers reported on Forms W-2.

The IRS has established processes to identify these discrepancies. However, the IRS only reviews a small portion of the questionable claims it identifies. The IRS generally has no other processes or procedures to address these questionable Excess Social Security Tax Credit claims. TIGTA estimates that the IRS allowed more than \$12.9 million in erroneous credits in Tax Year 2011 (\$64 million forecasted over five years).

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, ensure that employees follow established procedures when verifying claims and develop a strategy that adequately addresses tax returns identified with a discrepancy between the Social Security tax withholding reported by taxpayers and reported by employers.

The IRS agreed with three of the four recommendations. The IRS stated that it has updated processing procedures and plans to ensure that employees are properly trained. In addition, the IRS plans to redesign filters used to identify erroneous credits. However, the IRS does not plan to revise its strategy to address Social Security tax withholding discrepancies to include the use of soft notices.

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/201440058fr.pdf>