SCREENING ELECTRONICALLY FILED RETURNS FOR ERRORS PROVIDES A SIGNIFICANT BENEFIT AND DOES NOT APPEAR TO BE A BARRIER TO ELECTRONIC FILING

Issued on May 25, 2007

Highlights

Highlights of Report Number: 2007-40-079 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Each year, millions of individual income tax returns are submitted electronically with error conditions that cause them to be rejected by the Internal Revenue Service (IRS). The tax return acceptance controls ensure (1) error conditions on electronically filed tax returns are corrected before processing and (2) benefit taxpayers filing electronically by providing immediate notification of any error requiring correction. In contrast, taxpayers that file on paper encounter processing delays, IRS correspondence, and corrections to the amount of taxes owed or refunds due.

WHY TIGTA DID THE AUDIT

This audit was initiated because, although the IRS has made significant inroads to electronic filing, it has not yet reached its goal of having 80 percent of all tax returns filed electronically. In Tax Year 2005, approximately 73.3 million (54 percent) individual income tax returns were filed electronically. While the percentage of electronically filed tax returns is growing each year, the IRS recognizes that it must reduce or eliminate barriers to electronic filing while still maintaining effective controls necessary to ensure the accuracy and validity of tax returns.

To maintain effective control over the acceptance of electronic returns, the IRS uses Error Reject Codes to identify and reject electronic tax returns back to taxpayers for correction of the various errors identified. Our audit objective was to evaluate whether the tax return acceptance controls for electronically filed returns were creating an unnecessary barrier to increasing electronic filing.

WHAT TIGTA FOUND

TIGTA found the error identification process is working as intended and benefits taxpayers filing electronically by providing immediate notification of any error requiring correction. Of the approximately 5.7 million returns submitted electronically with error conditions that caused them to be rejected by the IRS, about 4.5 million were subsequently corrected, resubmitted electronically, and accepted by the IRS.

This process also helps the IRS protect tax revenues. More than 600,000 rejected returns were electronically resubmitted with the error condition for the duplicate use of a Social Security Number removed. This helps the IRS protect tax revenues by ensuring taxpayers claim only the tax benefits to which they are entitled. However, under certain circumstances, the taxpayer whose return was rejected is rightfully entitled to use the duplicated Social Security Number. To reduce the burden on taxpayers and paper processing, the IRS has approved modifications to certain error conditions for the duplicate use of a Social Security Number. To reduce the number of electronic returns subject to these conditions and eliminate forcing some taxpayers to refile their returns on paper, TIGTA believes the IRS could apply the same approach to additional error conditions that are discussed in the report.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Wage and Investment Division, modify the reject criteria in conjunction with currently approved modifications for accepting electronic returns from qualified taxpayers with duplicate Social Security Number use conditions. Further, the IRS should modify the reject criteria for accepting electronic returns from certain married taxpayers filing jointly using a duplicated Social Security Number.

In their response to the report, IRS officials stated they agreed with both recommendations and have submitted or plan to submit Work Requests to address both. The submitted Work Request modified the reject criteria for Qualifying Social Security Number use for child and dependent care expenses and the Earned Income Tax Credit. The planned Work Request is expected to allow returns of married taxpayers filing jointly using a duplicated Social Security Number to be accepted electronically.

READ THE FULL REPORT

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