



Treasury Inspector General for Tax Administration Office of Audit

THE TELEPHONE EXCISE TAX REFUND WAS NOT CLAIMED ON BUSINESS TAX RETURNS PRIMARILY BECAUSE OF THE PERCEIVED WORK AND EXPENSE INVOLVED TO DO SO

Issued on September 17, 2008

Highlights

Highlights of Report Number: 2008-30-175 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

As of 2006, the Telephone Excise Tax Refund (TETR) was the most wide-reaching tax refund in the history of the Internal Revenue Service (IRS). The IRS estimated that between 145 million and 165 million individual taxpayers and between 13.9 million and 15.9 million business taxpayers would be eligible to receive refunds of telephone excise taxes collected inappropriately by the IRS. The IRS made significant efforts to advise business taxpayers of the TETR program and to simplify the claim process. However, a low percentage of business taxpayers claimed it, and a low percentage of the overall amount of tax collected was refunded.

The report provides information to the IRS regarding the effectiveness of its efforts to communicate the TETR program to a very broad audience of taxpayers for its use in improving similar efforts in the future.

WHY TIGTA DID THE AUDIT

A prior TIGTA report concluded that 94.4 percent of business taxpayers filing for Tax Year 2006 did not claim any TETR, even though they most likely qualified for it. To help determine why so few businesses claimed the TETR, TIGTA surveyed a sample of professional preparers of business tax returns.

WHAT TIGTA FOUND

The TETR was not claimed on business tax returns for a variety of reasons. Some of the preparers surveyed (35 percent) indicated that their clients did not qualify for the TETR. Another 44 percent of the preparers did not claim the TETR on their clients' business tax returns because they believed that the amount of work and associated fees expended to compute the refund amount were ultimately not worth the refund. Still another 20 percent of the preparers either forgot to claim the TETR for their clients or

were not aware that the TETR was available to businesses.

Our survey also indicated that a surprisingly high percentage (27 percent) of the preparers who did not compute the TETR due to the cost involved were not aware that the IRS had offered a simplified (estimation) method of computing the refund.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report. However, key IRS management officials reviewed it prior to issuance and agreed with the facts and conclusions presented.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2008reports/200830175fr.pdf>.