



*Evaluation of Planning Efforts for the  
Issuance of Economic Stimulus Payments*

**July 31, 2008**

**Reference Number: 2008-40-149**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

July 31, 2008

**MEMORANDUM FOR** DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT  
DEPUTY COMMISSIONER FOR SERVICES AND  
ENFORCEMENT

*Michael R. Phillips*

**FROM:**

Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – Evaluation of Planning Efforts for the Issuance of  
Economic Stimulus Payments (Audit # 200840030)

This report presents the results of our review to evaluate the effectiveness of the Internal Revenue Service's (IRS) efforts to plan and implement the 2008 economic stimulus payments. The scope of this review was limited to an assessment of the IRS' efforts to plan for the implementation of the stimulus payments and is based on actions taken by the IRS as of April 1, 2008. This review is the first in a series of reviews designed to provide Congress with an ongoing status of the IRS' implementation of the economic stimulus payments.

*Impact on the Taxpayer*

The most significant part of the Economic Stimulus Act of 2008<sup>1</sup> is the individual stimulus payment. The IRS expects to issue more than \$100 billion in stimulus payments to more than 130 million households. Recognizing that the stimulus payments would affect millions of individuals, the IRS designed a wide-reaching media campaign focused on educating individuals on the requirements to receive the stimulus payment along with ways to receive assistance. Although the IRS' planning for the stimulus payments was generally sufficient, we noted areas where improvements were needed. Management addressed our concerns in a timely manner, which helped to ensure the accuracy and consistency of information provided externally and

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<sup>1</sup> Pub. L. 110-185, 122 Stat. 613.



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internally and reduced the risk of errors when stimulus-only returns<sup>2</sup> were processed and payments were issued.

### *Synopsis*

The Economic Stimulus Act of 2008 was passed to energize the national economy. The stimulus payment is a credit for Tax Year 2008. However, the payments are being estimated using income figures reported on Tax Year 2007 tax returns and will be issued in 2008 so individuals can benefit from the payments as soon as possible. Prior to Congress' finalizing of the Economic Stimulus Act of 2008, the IRS established an Executive Steering Committee to coordinate the identification of all affected IRS functions, programs, and procedures. The Committee also performed assessments of how the IRS would handle the additional work required to implement the stimulus payments.

***Because Congress expected stimulus payments to be issued as soon as possible, the IRS did not have the option to delay implementation until after the 2008 Filing Season.<sup>3</sup>***

The IRS designed a wide-reaching media campaign to educate individuals about the requirements to receive the stimulus payments along with ways to receive assistance. This campaign included media contacts, public service announcements, information on the IRS web site, issuance of advance notices, and partnering with external Federal Government agencies and organizations. The IRS also established tools to provide assistance to the anticipated thousands of individuals who would contact the IRS with stimulus payment questions. This assistance had to be provided without harming service to taxpayers who were in the process of filing their annual income tax returns.

As of March 29, 2008, the IRS had received approximately 1.6 million returns (1.4 million paper and 215,000 electronic) filed only to claim the stimulus payment.<sup>4</sup> The IRS had processed approximately 500,000 of these returns through March 29, 2008. However, a backlog of stimulus-only returns existed because the IRS had to devote its resources to processing more than 37 million returns on which refunds were owed to the taxpayers. Refund returns must be processed within 45 calendar days of receipt to prevent the payment of interest.

Although the IRS' planning for the stimulus payments was generally sufficient, there were areas where improvements were needed. Some IRS functions had not developed sufficient Action Plans, and there was no consolidated review process in place to ensure that the information and guidance being shared internally and externally were consistent and accurate. These issues could

<sup>2</sup> Returns filed only to claim the stimulus payment.

<sup>3</sup> The period between January and mid-April when most individual income tax returns are filed.

<sup>4</sup> The 1.6 million returns figure excludes an estimated 800,000 returns filed prior to the IRS separately identifying stimulus-only returns.



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have increased the risk of errors when stimulus-only returns were filed and processed and payments were issued. IRS management addressed these concerns as we brought them to their attention.

In addition, we identified a number of instances where information being distributed externally and internally was inconsistent or incomplete. For example, guidance provided on IRS.gov and to Taxpayer Assistance Center<sup>5</sup> employees on what individuals needed to do to file a

***Information distributed externally and internally was not always consistent and complete.***

stimulus-only return was not consistent. We shared our concerns with the Executive Steering Committee during the course of our audit, and actions were initiated to address most of the concerns. Although the IRS had established an Executive Steering Committee to coordinate the planning for the stimulus payments, each IRS function

was responsible for creating and disseminating information relative to its area of responsibility. Many of the concerns we raised could have been prevented if information had been reviewed by a central point to ensure its consistency and completeness.

We also identified concerns with the IRS' plans to address stimulus payments on fraudulent Tax Year 2007 returns on which a determination of fraud was made after the refunds were issued, and to identify potentially fraudulent stimulus-only returns. We are evaluating the Criminal Investigation Division's efforts to address these concerns.

### *Response*

We made no recommendations in this report. IRS management did respond to provide additional perspective on agency efforts. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report results. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.

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<sup>5</sup> An IRS office with employees who answer questions, provide assistance, and resolve account-related issues for taxpayers face to face.



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*Abbreviations*

IRS	Internal Revenue Service
TY	Tax Year



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## *Evaluation of Planning Efforts for the Issuance of Economic Stimulus Payments*

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### *Background*

The Economic Stimulus Act of 2008,<sup>1</sup> signed on February 13, 2008, was passed to energize the national economy. The most significant part of the Act is the individual stimulus payment, which is a credit for Tax Year (TY) 2008. However, the payments are being estimated using information reported on TY 2007 tax returns and will be issued in 2008<sup>2</sup> so individuals can benefit from the payments as soon as possible. Individuals who qualify for a larger payment as a result of changes between their TYs 2007 and 2008 returns will receive the additional payment when they file their TY 2008 returns (generally between January and April 2009). Individuals who receive more than they would have if the payment had been calculated using information from their TY 2008 returns will not be asked to pay the excess back. The stimulus payment will not increase the amount of tax an individual owes or reduce an individual's refund for TY 2008.

***The IRS expects to issue more than \$100 billion in stimulus payments to more than 130 million households.***

To receive a stimulus payment, individuals must have an income tax liability or at least \$3,000 in qualifying income. Income from wages, tips, and net self-employment earnings as well as nontaxable combat pay and some Social Security, Veterans disability, and Railroad Retirement benefits qualifies as eligible income. Individuals must file a 2007 tax return with a valid Social Security Number to receive the payment. The Internal Revenue Service (IRS) estimates that an additional 20 million individuals who do not normally need to file a tax return will file a TY 2007 return to claim the stimulus payment.

***To qualify for a stimulus payment, individuals must have an income tax liability or \$3,000 in qualifying income as well as a valid Social Security Number.***

For most individuals, the amount of the stimulus payment received is dependent on their net income tax liability. Single taxpayers will generally receive the greater of \$300 or their actual tax liability up to \$600, and couples will generally receive the greater of \$600 or their actual tax liability up to \$1,200. Anyone with qualifying children will also receive an additional \$300 per child. A qualifying child is any child who is under the age of 17 as of December 31, 2007, and who can be claimed for purposes of the Child Tax Credit. The stimulus payment also phases out for higher income taxpayers. Figure 1 provides an overview of the provisions of the Economic Stimulus Act of 2008.

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<sup>1</sup> Pub. L. 110-185, 122 Stat. 613.

<sup>2</sup> Unless otherwise noted, all dates in this report are calendar year.



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**Figure 1: Provisions of the Economic Stimulus Act of 2008**

Provision	Details
General Payment Provision	10 percent of the first \$6,000 of taxable income (\$12,000 for couples), to extent of tax liability; maximum \$600/\$1,200, minimum \$300/\$600.
Refundability Provision	\$300 stimulus payment (\$600 for couples) available for those without tax liability if earned income plus Social Security benefits, some Railroad Retirement benefits, and Veterans disability payments are at least \$3,000. <sup>3</sup>
High-Income Phase-out Provision	Payment phased out at 5 percent of Adjusted Gross Income greater than \$75,000 for single individuals and \$150,000 for couples. Payment fully phased out at \$87,000 for singles and \$174,000 for couples. The phase-out range increases for couples with qualifying children.
Child Provision	\$300 per qualifying child if eligible for any other stimulus payment. Eligibility criteria are the same as for the Child Tax Credit.
Other Features	Disallows the stimulus payment to illegal immigrants by requiring a Social Security Number.

Source: Congressional Research Service Report "Tax Provisions of the Economic Stimulus Package" issued on March 27, 2008.

Implementing the economic stimulus payment presented two significant challenges for the IRS.

- The process for issuing payments had to be implemented at the same time the IRS was processing an estimated 140 million individual income tax returns as part of its annual filing season.<sup>4</sup>
- All affected programs and computer systems had to be modified in a relatively short time period to satisfy the intent of Congress to issue the payments to individuals as soon as possible.

This review was performed at the IRS National Headquarters, the Wage and Investment and Criminal Investigation Divisions, and the Modernization and Information Technology Services organization in Washington, D.C., during the period January through April 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate

<sup>3</sup> Eligible income does not include Supplemental Security Income or pensions including government and military retirement pensions (including disability), or any unearned income including withdrawals from Individual Retirement Accounts.

<sup>4</sup> The period between January and mid-April when most individual income tax returns are filed.



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evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The scope of this review was limited to an assessment of the IRS' efforts to plan for the implementation of the stimulus payments and is based on actions taken by the IRS as of April 1, 2008. We will continue to assess the IRS' actions as it progresses with implementation and issuance of the payments. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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### *Results of Review*

#### ***A Number of Methods Were Used to Inform and Notify All Eligible Individuals and Households About Stimulus Payments***

Recognizing that the stimulus payments would be sent to more than 130 million households, the IRS designed a wide-reaching media campaign. The focus was to educate individuals on the requirements to receive the stimulus payment along with ways to receive assistance. The campaign included:

- Initiating 2,000 media contacts, public service announcements in both English and Spanish, and extensive use of the IRS' public web site (IRS.gov) as the source for information. The IRS also released four segments on the popular Internet web site, YouTube.
- Partnering with the AARP,<sup>5</sup> community groups, and other programs that assist retired and lower income individuals in an effort to spread the word that these individuals might be eligible for a stimulus payment.
- Issuing Economic Stimulus Payment Notices (Notice 1377) to more than 130 million taxpayers who filed a TY 2006 income tax return. These Notices were mailed March 4 through March 21, 2008, and cost an estimated \$45 million to print and mail. The Notice provided background information regarding the stimulus payments as well as specific qualifications and actions individuals would have to take to receive the payment. The IRS believed that it would receive significantly fewer calls to its toll-free telephone lines as a result of the advance Notice. The advance Notice cost approximately \$0.33 per Notice compared to \$0.71 to answer an automated telephone call and \$19.46 to have an assistor answer a telephone call.
- Coordinating with the Social Security Administration and the Department of Veterans Affairs to identify beneficiaries who might qualify for the stimulus payment but would not normally have to file a tax return.
- Developing a new tax package, Information About Economic Stimulus Payments for Social Security, Veterans, and Other Beneficiaries (Package 1040A-3), and mailing it to more than 20 million individuals beginning on March 15, 2008. This package included a

***Despite challenges, the IRS notified millions of taxpayers about stimulus payment requirements and where to obtain assistance.***

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<sup>5</sup> Formerly the American Association of Retired Persons.



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copy of the U.S. Individual Income Tax Return (Form 1040A) highlighting the simple, specific sections of the Form that can be filled out to qualify for the stimulus payment. At \$0.32 per package, the IRS estimates that this new tax package cost \$6.5 million to print and mail. The Social Security Administration has agreed to reimburse the IRS for about \$6.4 million of the total cost.

The IRS also had to determine how to provide assistance to the anticipated thousands of individuals who would contact the IRS with questions about the stimulus payment without harming its service to taxpayers who were in the process of filing their annual income tax returns. In an effort to provide timely assistance, the IRS:

- Established a dedicated toll-free telephone number to assist taxpayers with questions about the stimulus payment. As of March 29, 2008, the IRS had received 2.3 million calls to the automated stimulus payment telephone lines, and IRS assistors had answered 572,000 calls about the stimulus payment.
- Added an Economic Stimulus Payment Calculator to IRS.gov enabling individuals to calculate their estimated stimulus payment.
- Initiated a “Super Saturday.” The IRS opened 320 Taxpayer Assistance Centers<sup>6</sup> in all 50 States and the District of Columbia, and IRS partner organizations operated approximately 400 locations, to prepare simple Forms 1040A for individuals filing a return solely to receive the stimulus payment.

Because Congress expected the stimulus payments to be in the hands of individuals as soon as possible, the IRS did not have the option to delay implementation until after the 2008 Filing Season, when its resources are already strained. As of March 29, 2008, the IRS had received approximately 1.6 million returns (1.4 million paper and 215,000 electronic) filed only for claiming the stimulus payment.<sup>7</sup> It had processed approximately 500,000 of these returns through March 29, 2008. However, a backlog of stimulus-only returns existed because the IRS had to devote its resources to processing more than 37 million returns on which refunds were owed to the taxpayers. Refund returns must be processed within 45 calendar days of receipt to prevent the payment of interest.

***The IRS planned to begin issuing stimulus payments on May 2, 2008.***

The IRS planned to issue the Understanding Your Economic Stimulus Payment Notice (Notice 1378) to individuals with the stimulus payment amount and the approximate date the payment will be mailed or deposited into their bank accounts beginning on April 30, 2008, and

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<sup>6</sup> IRS offices with employees who answer questions, provide assistance, and resolve account-related issues for taxpayers face to face.

<sup>7</sup> The 1.6 million returns exclude an estimated 800,000 returns filed prior to the IRS separately identifying stimulus-only returns.



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continuing through December 2008 until all stimulus payments have been made. The IRS planned to begin issuing stimulus payments on May 2, 2008.

### ***Actions Were Taken to Reduce the Risk of Errors Associated With the Filing and Processing of Stimulus-Only Returns and the Issuance of Payments***

Although the IRS' planning for the stimulus payments was generally sufficient, we noted areas where improvements were needed. The IRS addressed these concerns as we brought them to the attention of management. Addressing these concerns in a timely manner helped ensure that accurate and consistent information was provided to millions of individuals regarding requirements for receiving the payment and helped reduce the risk of errors when stimulus-only returns were processed and payments were issued.

Recognizing the massive undertaking that would be required to issue stimulus payments in a timely manner, the IRS established an Executive Steering Committee prior to Congress' finalizing of the Economic Stimulus Act of 2008. The Executive Steering Committee worked with IRS functions to identify actions that would be needed to ensure smooth implementation of the Act. The Committee also coordinated the identification of all affected IRS functions, programs, and procedures and performed an assessment of how the IRS would handle the additional work required to implement the stimulus payment.

***The Executive Steering Committee took immediate action to address most of the concerns raised during the course of our review.***

During the course of our review, we obtained copies of IRS functions' Action Plans, draft notices, and procedures; monitored IRS.gov; and reviewed press releases, internal guidance, and other information related to the stimulus payment. Our review of this information identified that not all Action Plans were adequately developed, and there was no consolidated review process in place to ensure that the information and guidance being shared internally and externally were consistent and accurate. These concerns, if not addressed, could have increased the risk of errors when stimulus-only returns were processed and stimulus payments were issued.

### ***Some Action Plans were not sufficiently developed***

Although the IRS recognized the need to coordinate planning for the stimulus payments across functional lines, its planning efforts did not require all major functions that would be affected by the issuance of stimulus payments to develop Action Plans. These Action Plans were critical because they laid out the specific steps a function would need to take in preparation for the issuance of stimulus payments and would be used by the Executive Steering Committee to monitor the IRS' implementation progress.



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Specifically, the Compliance, Electronic Tax Administration, and Submission Processing functions did not initially prepare Action Plans. When asked why these functions did not prepare Action Plans, the IRS responded that the Submission Processing function's assessment of the Economic Stimulus Act prior to its passage indicated that no significant processing changes would be needed. However, once the Act was passed and Social Security and Veterans benefits were added as qualified income, the IRS realized that it would need to do significantly more to assist individuals in filing for the stimulus payment. The Submission Processing function subsequently developed an Action Plan in late February 2008. The IRS indicated that development of an Electronic Tax Administration function Action Plan was secondary to the need to immediately coordinate with its electronic filing partners (software developers, etc.). The IRS also stated that it did not believe that it was necessary for the Compliance function to have an Action Plan because it did not intend to change its compliance selection routines. The Executive Steering Committee held regular conference calls with IRS functions to receive updates on actions being taken to diminish the impact of not having Action Plans developed.

Of the functions with no Action Plans developed initially, the Submission Processing function will be the most affected by the stimulus payment implementation. It is responsible for 1) developing the criteria necessary to ensure that only eligible individuals receive a stimulus payment and that the payment is computed correctly, 2) ensuring that programming changes are completed, and 3) processing the estimated 20 million to 25 million additional stimulus-only returns the IRS will receive as a result of the Economic Stimulus Act of 2008. All of the preceding had to be performed while simultaneously processing nearly 140 million individual income tax returns as part of the IRS' annual filing season. The Executive Steering Committee relied on regular conference calls and meetings to receive updates on actions being taken by the Submission Processing function.

Once developed, the Submission Processing function Action Plan was vague and lacked the level of detail needed to ensure that all critical actions would be taken. This resulted in the Submission Processing function reacting to conditions as they arose rather than proactively anticipating and resolving issues. For example, initial procedures for processing stimulus-only tax returns filed via paper were unclear to employees on when to reject tax returns that did not meet the stimulus-only return filing requirements. As a result, employees were sending returns back to individuals if they were not marked with "stimulus only" or other similar wording. The IRS did not anticipate that some individuals would not understand or mark their tax returns with "stimulus only" as instructed even though they were eligible for the stimulus payment. The IRS did not realize the weakness in its procedures until it began processing stimulus-only returns. The procedures were subsequently modified to evaluate the information on the returns in addition to looking for the individuals' notations before rejecting the returns.

We also identified weaknesses in the Criminal Investigation Division's Action Plan. Specifically, the Action Plan did not address the need to develop processes/procedures to:



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- Stop stimulus payments relating to certain TY 2007 fraudulent returns for which a determination of fraud was made after the refunds were issued.
- Identify potential fraud relating to those individuals who are filing stimulus-only tax returns.

We are evaluating the Criminal Investigation Division's efforts to address these concerns.

### **There were some inaccuracies and inconsistencies in external and internal guidance caused by the lack of a coordinated review process**

Some information being distributed externally and internally was inconsistent or incomplete. Once the issues were raised to the Executive Steering Committee, actions were initiated to address most of the concerns. For example:

#### *Inconsistent Guidance*

- Guidance provided on IRS.gov and to Taxpayer Assistance Center employees was not consistent. Information on the IRS web site indicated that taxpayers who were filing a tax return for the sole purpose of claiming the stimulus payment would only have to fill out a few specific items on the Form 1040A. However, instructions provided to the Taxpayer Assistance Center employees required the completion of additional areas of the Form 1040A. The IRS corrected the guidance provided to the Taxpayer Assistance Centers.
- Guidance was inconsistent between instructions in the tax package 1040A-3 and IRS procedures for processing stimulus-only returns. The package 1040A-3 instructs individuals filing a stimulus-only tax return to put their combined earned income on Line 7 of the Form 1040A and attach supporting Wage and Tax Statements (Form W-2). These instructions are silent on what the individual should do if no Form W-2 is available except that self-employment income can be reported on this Line if less than \$400. However, the IRS processing procedures tell employees to send returns back to the individuals if this income is not supported or explained. This can result in individuals not receiving a stimulus payment they are entitled to because not all reported income is supported by proper documentation. The IRS elected not to change its processing procedures.

#### *Incomplete Guidance*

- Guidance did not inform individuals that they should not reduce their TY 2007 tax due by the stimulus payment amount. The IRS subsequently updated IRS.gov to advise taxpayers not to do this.
- Guidance did not contain all eligibility information. The IRS did not expand on the eligibility information because its Communications function was concerned that



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taxpayers would be confused if the IRS tried to explain all the eligibility requirements. In addition, news articles have misstated the basic eligibility requirements, possibly as a result of the incomplete information available from the IRS.

- Guidance did not inform individuals that anyone *not* receiving a TY 2007 refund would get their stimulus payment via paper check. Subsequent to our raising this concern, the IRS issued guidance clarifying that individuals not receiving a TY 2007 refund could receive their stimulus payment by direct deposit if they included their bank account information on their tax return.
- Guidance was unclear about when individuals would receive their stimulus payment. Only tax returns **processed** by the IRS before April 15, 2008, will have stimulus payments issued according to the IRS' published payment schedule. However, information released by the IRS implied all tax returns **filed** by April 15 would have payments issued per the schedule. The IRS subsequently released detailed information encouraging individuals to file early to ensure that their returns were processed by April 15 and clarifying that only tax returns received and processed before that date would have stimulus payments issued per the published payment schedule.
- Guidance was not initially provided to Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites<sup>8</sup> on how to serve individuals who ask for help with preparing their stimulus-only tax returns. At the time we raised this concern, the IRS was in the process of providing guidance to the Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites.

In addition, we reviewed the draft tax package 1040A-3 prior to issuance and provided comments to the IRS for its use in finalizing the package and preparing it for mailing. The IRS incorporated all of our suggestions, except the one relating to filing status, into its efforts to finalize the tax package and mail it to approximately 20 million individuals beginning on March 15, 2008. Items we noted included that:

- The instructions told individuals to file their returns by December 1, 2008. Our concern was that this could confuse individuals because the normal and extended individual tax return filing dates are April 15 and October 15, respectively. The IRS revised the instructions to encourage individuals to file as soon as possible but advising that they must file by October 15, 2008.
- The instructions did not provide specific information on where to mail a stimulus-only tax return.
- The instructions were confusing on how to file for each filing status (e.g., single, married filing jointly).

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<sup>8</sup> Free income tax assistance services supported by the IRS.



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- The instructions did not contain guidance on how to properly sign the tax return when the individual filing the return was represented by a guardian or other legal representative (e.g., individuals in nursing facilities who might be incapacitated).

Although the IRS had established an Executive Steering Committee to coordinate the planning for the stimulus payment, each IRS function was responsible for creating and disseminating information relative to its area of responsibility. Many of the concerns we raised could have been prevented if information had been reviewed at a central point to ensure consistency and completeness.

We will continue to evaluate the IRS' implementation of the stimulus payment as it moves forward. We have begun assessing whether stimulus payments are calculated correctly and the IRS' process to prevent individuals that are not entitled to receive a stimulus payment from receiving it.



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**Appendix I**

*Detailed Objective, Scope, and Methodology*

The overall objective of this review was to evaluate the effectiveness of the IRS' efforts to plan and implement the 2008<sup>1</sup> economic stimulus payments. The scope of this review was limited to an assessment of the IRS' efforts to plan for the implementation of the stimulus payments and is based on actions taken by the IRS as of April 1, 2008. To accomplish our objective, we:

- I. Analyzed the Economic Stimulus Act of 2008<sup>2</sup> to determine the eligibility requirements, how the stimulus payments are computed, and the instructions to the IRS on distributing the payments.
- II. Evaluated the effectiveness of the IRS' overall planning process for issuing the economic stimulus payments. We met with the Executive Steering Committee and IRS executives to discuss how the IRS planned to implement the economic stimulus payments and obtained copies of functional Action Plans and meeting notes related to those Plans as well as notes of Executive Steering Committee meetings.
- III. Evaluated the adequacy of the IRS' plans for educating and assisting individuals in ensuring that they receive the proper economic stimulus payment, including efforts to assist non-English-speaking individuals and those who would not otherwise be required to file an individual income tax return.
  - A. Evaluated the IRS' plans to inform the public and the tax preparer community about who is eligible for a stimulus payment and how to claim the payment, including how to obtain assistance from the IRS. We assessed the clarity, accuracy, completeness, and cost of the Economic Stimulus Payment Notice (Notice 1377) and the tax package Information About Economic Stimulus Payments for Social Security, Veterans, and Other Beneficiaries (Package 1040A-3). We also evaluated the accuracy, clarity, completeness, and timeliness of the information made available on IRS.gov.
  - B. Assessed the effectiveness of the IRS' efforts to ensure that its Taxpayer Assistance Centers<sup>3</sup> and Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites<sup>4</sup> were able to properly educate and assist individuals on the stimulus payment.

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<sup>1</sup> Unless otherwise noted, all dates are calendar year.

<sup>2</sup> Pub. L. 110-185, 122 Stat. 613.

<sup>3</sup> IRS offices with employees who answer questions, provide assistance, and resolve account-related issues for taxpayers face to face.

<sup>4</sup> Free income tax assistance services supported by the IRS.



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We also determined if the IRS increased its promotion of electronic filing as a preferred way to file for the stimulus payment.

- IV. Evaluated the effectiveness of the IRS' Action Plans for determining the stimulus payment eligibility and the calculation of the payment amount to determine if the Plans were sufficient to ensure that stimulus payments were properly computed and issued to eligible individuals.
  - A. Discussed the process used to develop the computer programs necessary to identify eligible individuals, calculate the payment amount, and issue the stimulus payment in a timely manner. We also reviewed applicable computer programming documentation to determine if planned programming would accurately identify eligible individuals and accurately compute the stimulus payment.
  - B. Determined the steps the IRS planned to take to ensure that stimulus payments are paid as quickly as possible within the guidelines of the Economic Stimulus Act of 2008. This included evaluating the IRS' plans for issuing stimulus payments through direct deposit and assessing the effect that delays in processing certain individual income tax returns would have on the stimulus payments.
  - C. Determined what additional controls the IRS planned to use to ensure that fraudulent or otherwise erroneous attempts to receive a stimulus payment are identified. We also evaluated planned controls to determine if they were sufficient to minimize the risk of fraud or significant error.
- V. Identified the processes the IRS planned to use to track the stimulus payments, including implementation costs.



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**Appendix II**

*Major Contributors to This Report*

Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs)

Russell Martin, Director

Deann Baiza, Audit Manager

John Hawkins, Lead Auditor

Sharla Robinson, Lead Auditor

Kathleen Hughes, Senior Auditor

Steven Stephens, Senior Auditor

Jennie Choo, Auditor



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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Commissioner, Wage and Investment Division SE:W  
Chief Information Officer OS:CIO  
Chief, Criminal Investigation Division SE:CI  
Director, Communications and Liaison, Wage and Investment Division SE:W:C  
Director, Compliance, Wage and Investment Division SE:W:CP  
Director, Customer Account Services, Wage and Investment Division SE:W:CAS  
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division  
SE:W:CAR  
Director, Electronic Tax Administration and Refundable Credits, Wage and Investment Division  
SE:W:ETARC  
Director, Strategy and Finance, Wage and Investment Division SE:W:S  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S



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**Appendix IV**

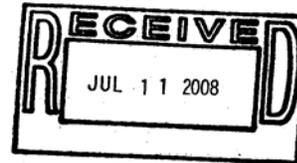
*Management's Response to the Draft Report*



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

July 11, 2008



MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Linda E. Stiff *LES* *ES*  
Deputy Commissioner for Services and Enforcement

SUBJECT: Draft Audit Report – Evaluation of Planning Efforts for the  
Issuance of Economic Stimulus Payments  
(Audit # 200840030)

We have reviewed the subject draft report and appreciate your acknowledgment of the extraordinary efforts the IRS made to ensure the effective planning and implementation of the 2008 Economic Stimulus Payments (ESP). The success of our planning efforts is evidenced by the fact it took only 70 days (55 workdays) from the passing of the legislation to the first direct deposit. We also appreciate your noting the significant challenges we faced in implementing the ESP in a very short timeframe while simultaneously conducting a successful filing season. The IRS expects to issue more than \$99 billion in stimulus payments to more than 132 million households, which includes approximately 20 million individuals who do not normally need to file a tax return. Given these challenges, we believe our planning efforts were very successful. As with any undertaking of this magnitude, there are opportunities for improvement. In this regard, we acknowledge that some aspects of our action plans and guidance could be improved. However, as your report notes, our Executive Steering Committee took immediate action to address most of the concerns raised during your review.

In terms of our Submission Processing Action Plan, your report indicates this function reacted to conditions as they arose rather than proactively anticipating and resolving issues. Prior to passage of the legislation, the IRS actively planned for the processing of all ESP claims including those made by individuals who would ordinarily not have a filing requirement. However, we encountered some filing patterns that could not be anticipated. When these conditions arose they were quickly addressed. For example, your report cites that the IRS incorrectly sent tax returns back to taxpayers solely because they were not marked "stimulus only" or other similar wording. A portion of these returns were filed before the ESP legislation was enacted and were correctly returned to taxpayers. For returns received after enactment, Internal Revenue Manual instructions were quickly issued to tax examiners explaining that while taxpayers had



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been instructed to self-identify on their ESP return, ESP filings could also be identified by the presence of entries on various lines of the Form 1040 and Form 1040A.

Your report also indicates there were some inaccuracies and inconsistencies in external and internal guidance. To ensure the American public understood the ESP legislation and received their payments as quickly as possible, we launched the Economic Stimulus Payments Information Center on IRS.gov which included Frequently Asked Questions, an Economic Stimulus Calculator and "Where's My Stimulus Payment?" In addition, we mailed 132 million taxpayers a "2008 Stimulus General Notice" explaining payment eligibility requirements; 20.5 million taxpayers "Information about Economic Stimulus Payments for Social Security, Veterans, and other Beneficiaries"; and, 68 million taxpayers "Understanding Your Economic Stimulus Payment." While the vast majority of our internal and external communications were accurate and consistent, when errors were identified they were also quickly resolved.

I thank the audit team for their assistance and valuable input during this process. As you continue your evaluation of the issuance of the stimulus payments, we look forward to continued cooperative efforts. If you have any questions, or if you would like to discuss this response in more detail, please contact Julie Rushin, Director, Strategy and Finance, Wage and Investment Division, at (404) 338-8800.