



Treasury Inspector General for Tax Administration Office of Audit

INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS ARE BEING ISSUED WITHOUT SUFFICIENT SUPPORTING DOCUMENTATION

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Highlights

Highlights of Report Number: 2010-40-005 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The purpose of the Individual Taxpayer Identification Number (ITIN) is to provide alien individuals, whether or not they reside in the United States, an identifying number for use in connection with United States tax return filing requirements. When applications for ITINs are not effectively processed and ITINs are inappropriately issued, the risk increases that ITINs are being used to file fraudulent tax returns. Inadequate processing of application packages increases the risk to both the taxpaying public and the Federal Government for potential losses associated with ITIN applicants.

WHY TIGTA DID THE AUDIT

The audit was initiated to determine whether Applications for IRS Individual Taxpayer Identification Number (Form W-7) were efficiently and effectively processed and ITINs were appropriately issued. There has been a significant increase in the use of ITINs since the Internal Revenue Service (IRS) began issuing them in Tax Year 1996. From Tax Year 2001 to 2008, there was a 247 percent increase in tax returns filed using ITINs.

WHAT TIGTA FOUND

ITINs were issued without sufficient supporting documentation. A statistical sample of 658 Forms W-7 selected from 1.5 million application packages submitted from January 1 through November 21, 2008, showed that 510 packages (78 percent) contained errors. The highest error rate (87 percent) was in applications submitted through Certified Acceptance Agents. This includes instances in which the Agents did not provide the documents required to support the Forms W-7 submitted by them to TIGTA. However, there was also a significant error rate (35 percent) in application packages submitted directly to the IRS.

Supporting documents are complex and guidelines are inconsistent. These documents may not be in English,

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vary according to the country in which they were issued, and, particularly for medical and school records, are unique to the individual. IRS employees who process these forms are not auditors and are required to ensure only the validity of the supporting documents. Guidelines do not require that they validate age, even though date of birth is a required field. Neither are they required to validate the date of entry into the United States. Inconsistent guidelines create confusion for taxpayers and Agents in attempting to comply with the proper preparation of a Form W-7 and determining the documents needed to support the issuance of an ITIN

If all requirements are met, the ITIN is assigned systemically by the ITIN Program's management information system, the Real-Time System. Research on the Real-Time System for 547 cases in our statistical sample found that 49 percent contained inaccurate information relating to what type of Agent submitted the application. In addition, information reflected on 20 percent of the 547 Forms W-7 was not transcribed correctly to the Real-Time System. Transcription errors included incorrect identification documents, birth dates, codes/reasons for submitting the Forms W-7, names, and/or addresses.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, revise guidelines related to processing applications submitted by Certified Acceptance Agents and applications submitted directly to the IRS and to ensure that the instructions for completing the Form W-7 and internal guidelines are consistent. In addition, the Commissioner should ensure that the data on the Real-Time System are accurate, and develop procedures and internal controls to monitor the Real-Time System to ensure that information entered is accurate.

In its response to the report, the IRS agreed with five of our recommendations and disagreed with one. The IRS has taken steps to revise and update guidance and instructions to ensure consistency and plans to update current guidelines to ensure the information on the Form W-7 is validated and consistent. Depending upon funding, the IRS plans to take corrective actions to update the Real-Time System and ensure the information entered is accurate. The IRS stated that tax returns submitted with a duplicate secondary/dependent ITIN are subject to compliance review after the return is processed. However, this is not a 100 percent review and only a small number of ITIN tax returns are subject to audit and would be corrected.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2010reports/201040005fr.pdf>

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