



## Treasury Inspector General for Tax Administration Office of Audit

### **MULTIPLE USE OF TAXPAYER IDENTIFICATION NUMBERS CONTINUES TO RESULT IN SIGNIFICANT ERRONEOUS EXEMPTIONS AND CREDITS**

Issued on September 14, 2010

## Highlights

Highlights of Report Number: 2010-40-117 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### **IMPACT ON TAXPAYERS**

Any person required to file a tax return must include an identifying number, referred to as a Taxpayer Identification Number (TIN). For the majority of filers, the TIN is the individual's Social Security Number. Generally, a TIN cannot be used on more than one tax return per year. When a TIN is used on more than one tax return per year, individuals may inappropriately receive tax benefits.

### **WHY TIGTA DID THE AUDIT**

This audit was initiated because multiple TIN use has grown from almost 2.2 million TINs used on 3.9 million tax returns in Tax Year (TY) 2005 to 2.6 million TINs used on 4.6 million tax returns in TY 2007. The overall objective of this review was to assess the effectiveness of the Internal Revenue Service's (IRS) identification of multiple TIN uses and its ability to prevent individuals from inappropriately receiving tax benefits as a result of the improper use of TINs.

### **WHAT TIGTA FOUND**

TIGTA estimates that individuals inappropriately received at least \$380 million in personal tax exemptions and tax credits in TY 2007 as a result of the multiple use of TINs. TIGTA identified 2,450,205 unique TINs that were used to claim a personal exemption or one or more of the tax credits TIGTA analyzed in TY 2007. These TINs were used on over 3.2 million tax returns. Over five years, erroneous exemptions and credits could exceed \$1.9 billion.

The IRS faces significant difficulties in preventing erroneous tax benefits associated with multiple TIN uses. However, there are actions that the IRS can take to reduce erroneous claims. These include:

- Expanding the issuance of notices to additional segments of individuals involved with multiple TIN uses.
- Initiating additional compliance efforts on multiple TIN uses for erroneous Earned Income Tax Credit claims.
- Disallowing multiple uses of IRS-issued identification numbers.
- Initiating compliance efforts to prevent the abusive use of TINs.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the Commissioner, Wage and Investment Division:

- Expand the issuance of notices to more individuals.
- Identify alternative compliance processes to address all individuals involved in the multiple use of TINs to claim the EITC.
- Implement a process to prevent and/or recover erroneous claims resulting from the multiple use of an Individual Taxpayer Identification Number (ITIN).

In addition, the IRS should establish processes to prevent and/or recover tax benefits erroneously provided to taxpayers when a TIN is used excessively in a single tax year.

The IRS agreed with two of our four recommendations. The IRS did not agree to expand the issuance of notices to additional segments of individuals involved with multiple TIN uses. It indicated doing so would be inconsistent with current electronic filing processes. In addition, the IRS did not agree to expand its processes to prevent and/or recover erroneous claims resulting from an ITIN. The IRS indicated its processes for verifying the use of ITINs is consistent with those used for Social Security Numbers.

Expanding the issuance of notices to additional segments of individuals involved with multiple TIN uses is consistent with the IRS's current notice processes. The IRS already issues a notice to individuals in a similar situation. In addition, the IRS collects extensive information from individuals who apply for an ITIN. The IRS should use all of the information available to prevent the use of an ITIN for erroneous claims for exemptions and tax credits.

### **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/201040117fr.pdf>.