



Treasury Inspector General for Tax Administration Office of Audit

EVALUATION OF THE INTERNAL REVENUE SERVICE'S CAPABILITY TO ENSURE PROPER USE OF RECOVERY ACT FUNDS

Issued on November 27, 2009

Highlights

Highlights of Report Number: 2010-41-011 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

The American Recovery and Reinvestment Act of 2009 (Recovery Act) contains 56 tax provisions, 20 individual taxpayer provisions, and 36 business taxpayer provisions. The individual taxpayer provisions will cost nearly \$252 billion and provide tax relief to working or retired Americans and their families. The business taxpayer provisions will cost more than \$74 billion and provide several tax relief incentives for businesses. The Internal Revenue Service (IRS) is unable to verify eligibility for the majority of Recovery Act benefits at the time a tax return is processed.

WHY TIGTA DID THE AUDIT

On February 17, 2009, the Recovery Act was enacted. The provisions in this law are estimated to cost a total of \$787 billion over 11 years. Federal agencies across the country will be responsible for distributing billions of dollars of Recovery Act funding to qualified recipients in discretionary and mandatory programs designed to revive the ailing economy and create a more sustainable future.

The Obama Administration has asked Federal agencies to ensure Recovery Act funds are used for authorized purposes and every step is taken to prevent fraud, waste, and abuse. Congress appropriated \$7 million to TIGTA to provide oversight and conduct audits of the IRS' administration of Recovery Act programs. The objective of this review was to assess the IRS' ability to verify tax return data and taxpayers' eligibility for tax-related Recovery Act benefits and credits.

WHAT TIGTA FOUND

The IRS uses certain methods to verify the accuracy and eligibility of tax benefits and credits claimed on tax returns. The validation process can occur 1) before a tax return is processed and before funds have been released or 2) after a tax return is processed and after funds have been released.

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The IRS cannot verify the accuracy of all of the legislated requirements before the tax return has completed processing for 39 Recovery Act provisions (13 individual provisions and 26 business provisions). To a great extent, the IRS relies on taxpayers' voluntary compliance with tax laws to accurately report income and claim only those tax benefits and credits to which they are entitled.

Verifying specific eligibility requirements for these 39 provisions would require the IRS to request specific documentation from the taxpayer. The IRS attempts to weigh the potential burden that requiring this documentation could place on taxpayers when implementing provisions. In addition, limitations of its electronic filing program prevent the IRS from transferring supporting (paper) documentation into an electronic format.

WHAT TIGTA RECOMMENDED

TIGTA did not include recommendations in this report. TIGTA has ongoing and planned audits that will focus on specific Recovery Act benefits and credits and will include recommendations as appropriate as part of these reviews.

The IRS did not provide a written response to this report.

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/201041011fr.pdf>.

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