



RECOVERY ACT

Interim Results of the 2010 Filing Season

March 31, 2010

Reference Number: 2010-41-047

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.



HIGHLIGHTS



INTERIM RESULTS OF THE 2010 FILING SEASON

Final Report issued on March 31, 2010

Highlights

Highlights of Reference Number: 2010-41-047 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The filing season is critical for the Internal Revenue Service (IRS) because it is the time when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures.

WHY TIGTA DID THE AUDIT

This report presents selected information related to the IRS 2010 Filing Season results as of either March 5 or March 6, 2010. TIGTA has a number of ongoing audits related to the 2010 Filing Season. Individual audit reports will be issued at the completion of each audit.

One of the challenges the IRS confronts each year in processing tax returns is the implementation of new tax law changes. The 2010 Filing Season presented additional challenges for the IRS due to the enactment of two significant tax laws. In addition, the IRS is implementing the first phase of the Modernized e-File system to process individual tax returns.

WHAT TIGTA FOUND

As of March 5, 2010, the IRS received nearly 61.3 million tax returns. Of those, 51.6 million were electronically filed (approximately equal to this time last year) and nearly 9.7 million were filed on paper (a decrease of almost 20 percent from this time last year). The IRS issued nearly 52 million refunds totaling approximately \$160.2 billion.

The IRS recognized the difficulty taxpayers may have in claiming new credits and/or deductions. In an attempt to reduce this difficulty, the IRS created new forms, schedules, and instructions. The IRS also developed programming to identify

taxpayers who may not have claimed credits to which they were entitled at the time they filed their tax returns. In addition, expanded math error authority is enabling the IRS to stop the erroneous claiming of credits/deductions. However, implementing new tax legislation is still presenting some challenges for the IRS which has resulted in the following:

- Increases in error inventories resulting from taxpayers' errors.
- Delays in completing programming resulting in the inability to process tax returns with First-Time Homebuyer Credit claims until February 16, 2010.
- Payment of \$24.2 million in erroneous Making Work Pay and Government Retiree Credits and the inability to identify and prevent erroneous claims at the time tax returns are processed resulting in more than \$4.7 million in erroneous Plug-in Vehicle Credits.

Moreover, errors are hindering the success of IRS processing of individual tax returns via its Modernized e-File system.

In addition, as of March 5, 2010, the IRS had identified 119,484 tax returns with \$733 million being claimed in fraudulent refunds and prevented the issuance of \$721 million (98 percent) of the fraudulent refunds being claimed.

Finally, from the beginning of the 2010 Filing Season, taxpayer demand for toll-free telephone assistors has been higher than planned. The IRS states that call demand is higher because more taxpayers than planned are calling to ask account-related questions. It has received more calls from individuals who owe taxes and believes the economic downturn is part of the reason. As of March 6, 2010, the IRS provided 960,161 services on the Individual Master File Balance Due application, which is 243,983 (34 percent) more than the 716,248 services provided for the same period last year.

WHAT TIGTA RECOMMENDED

This report was prepared to provide interim information only. Therefore, no recommendations were made in the report.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 31, 2010

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

Michael R. Phillips

FROM: (for) Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Interim Results of the 2010 Filing Season
(Audit # 201040105)

This report presents selected information related to the Internal Revenue Service (IRS) 2010 Filing Season¹ results as of either March 5 or March 6, 2010.² As part of our Fiscal Year 2010 Annual Audit Plan, we are conducting a number of ongoing audits that are related to specific issues in this report.³ We will continue to provide IRS management with information on any areas of immediate concern throughout our audit process.

The American Recovery and Reinvestment Act of 2009 (Recovery Act)⁴ provides separate funding to the Treasury Inspector General for Tax Administration through September 30, 2013, to be used in oversight activities of IRS programs. This audit was conducted using Recovery Act funds.

This report was prepared to provide interim information only. Therefore, we made no recommendations in the report. However, key IRS management officials reviewed it prior to issuance and agreed with the facts and conclusions presented.

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

¹ See Appendix VII for a glossary of terms.

² Results were provided as of either March 5 or March 6, depending on the date the IRS reported the respective data.

³ See Appendix IV for a list of ongoing or planned audits relating to areas reported on in the interim report.

⁴ Pub. L. No. 111-5, 123 Stat. 115 (2009).



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Interim Results of the 2010 Filing Season



Abbreviations

AGI	Adjusted Gross Income
<i>e-filed; e-file(ing)</i>	Electronically filed; electronic filing
IRS	Internal Revenue Service
MeF	Modernized e-File
PIN	Personal Identification Number
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration
U.S.	United States



Background

The filing season¹ is critical for the Internal Revenue Service (IRS) because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. During Calendar Year 2010, the IRS expects to receive nearly 138.5 million individual income tax returns. The IRS estimates that it will process 41 million paper and 97.5 million electronically filed (*e-filed*) tax returns and provide customer service assistance via telephone, web site, and face-to-face assistance to millions of taxpayers. It is anticipated that *e-filed* tax returns will continue to grow. The total *e-file* volumes are projected to increase by about 3.4 percent (3.3 million) for the 2010 Filing Season. Online *e-filed* tax returns are expected to increase by 4.3 percent.

The IRS expects to receive 138.5 million individual tax returns, which includes 97.5 million (70 percent) e-filed returns.

One of the challenges the IRS confronts each year in processing tax returns is the implementation of new tax law changes. Before the filing season begins, the IRS must identify new tax law and administrative changes, and where possible, revise the various tax forms, instructions, and publications. It must also reprogram its computer systems to ensure tax returns are accurately processed. Problems with tax return processing could delay refunds, affect the accuracy of accounts, and generate incorrect notices.

Two significant tax laws impact the 2010 Filing Season

Two major tax law enactments impact the 2010 Filing Season.

- ***The American Recovery and Reinvestment Act of 2009*** (Recovery Act),² enacted on February 17, 2009, includes 20 individual taxpayer provisions that will cost nearly \$252 billion. Figure 1 provides a summary of the individual taxpayer provisions included in this Act.

¹ See Appendix VII for a glossary of terms.

² Pub. L. No. 111-5, 123 Stat. 115 (2009).



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Figure 1: Summary of Recovery Act Tax Changes for Individual Taxpayers

<i>Recovery Act Tax Change</i> ³	<i>Cost in Millions</i> ⁴	<i>Taxpayers Impacted</i> ⁵	<i>General Purpose</i>
Making Work Pay Credit	\$ 116,199	116.3 million	Reduce tax burden for working Americans.
Increase in Earned Income Tax Credit	\$ 4,663	18.2 million	Raise low-income taxpayers above the poverty line.
Increase in Refundable Portion of Child Tax Credit	\$ 14,830	15.6 million	Reduce the financial burden of raising a family.
Increase in Hope Credit ⁶	\$ 13,907	10.2 million	Help families pay for the costs of higher education.
Computers Allowed as Education Expense for Section 529 Education Saving Accounts	\$ 6	5,000	Encourage the purchase of computers for students of higher learning.
Increase in First-Time Homebuyer Credit	\$ 6,638	1 million	Encourage buying homes to stimulate the weak housing market.
The First \$2,400 of Unemployment Compensation Is Nontaxable	\$ 4,740	7.4 million	Reduce the tax burden of unemployed workers.
Additional Deduction for State Sales Tax on Certain Motor Vehicles	\$1,684	8.5 million	Encourage the purchase of cars, light trucks, motorcycles, and motor vehicles with a cost less than \$49,500.
Alternative Minimum Tax Relief (Extended Nonrefundable Personal Credits and the Alternative Minimum Tax Exemption)	\$69,759	26 million	Protect millions of middle-income taxpayers, who would otherwise be subject to the Alternative Minimum Tax.
Modification of Nonbusiness Energy Property Credit	\$ 2,034	4.3 million	Encourage the purchase of energy efficient property designed to reduce heat loss during cold months or heat gain during warm months for use in a principal residence.
Modification of Residential Energy Efficient Property Credit	\$ 268	1.67 million	Encourage the purchase of renewable sources of energy for use in a home.
Qualified Plug-In Electric Drive Motor Vehicles Credit, Certain Plug-In Electric Vehicles Credit, Conversion Kits, and Alternative Motor Vehicle Credit as a Personal Credit Against the Alternative Minimum Tax	\$ 2,002	8,000	Encourage the purchase of motor vehicles (or the conversion of motor vehicles to those) that operate on clean renewable sources of energy.
Increased Exclusion for Employer Provided Commuter Transit Benefits	\$ 192	Less than 8.4 million	Reduce the consumption of fossil fuels by promoting the use of more environmentally friendly commuter transit options.
Health Coverage Tax Credit (12 Sections 1899A – L)	\$ 457	50,000 ⁷	Assist certified retirees and displaced workers with health insurance costs.
\$250 Economic Recovery Payment to Certain Individuals	\$ 14,225	676,000	Reduce financial burden on individuals receiving Social Security, railroad retirement, disability, or pension benefits.
\$250 Special Credit for Certain Government Retirees	\$ 218	696,000	Reduce tax burden on government retirees receiving a pension but not eligible for Social Security Benefits.
TOTAL ESTIMATED COST	\$251,822		

Source: *The Recovery Act and Treasury Inspector General for Tax Administration (TIGTA) analysis.*

³ The Alternative Minimum Tax relief section includes 2 provisions and the Plug-In Vehicle section includes 4 provisions for a total of 20 provisions.

⁴ Estimated over 11 years (2009 through 2019) by the Joint Committee of Taxation, Estimated Budget Effects of the Revenue Provisions Contained in the Conference Agreement for H.R. 1, The “American Recovery and Reinvestment Tax Act of 2009” (JCX-19-09, dated February 12, 2009).

⁵ Estimated by the Treasury Inspector General for Tax Administration based on historical statistics from Tax Year 2006 and Tax Year 2009 projections.

⁶ This is the American Opportunity Tax Credit.

⁷ This is the number of taxpayers impacted per year.



- The Worker, Homeownership, and Business Assistance Act of 2009⁸** was enacted on November 6, 2009, to help create jobs by providing tax cuts for homebuyers and businesses, while providing much-needed support for workers who are still struggling to find jobs. The legislation also extends and expands the First-Time Homebuyer Credit along with adding anti-fraud measures. The credit of \$8,000 is extended for homes purchased or under contract by April 30, 2010. In addition, a smaller credit of up to \$6,500 will be available to taxpayers that have lived in their homes for at least 5 years and wish to purchase a new home. The new law extends a similar credit until May 2011 for members of the uniformed services whose duty takes them overseas. The new law also contains important measures to combat tax fraud and protect responsible homebuyers, including setting a minimum age for home purchases and requiring documentary proof of the purchase in order to receive the credit. Figure 2 shows the changes to the First-Time Homebuyer Credit legislation.

Figure 2: Progression of First-Time Homebuyer Credit Legislation

Legislation	Housing and Economic Recovery Act of 2008 ⁹	American Recovery and Reinvestment Act of 2009	Worker, Homeownership, and Business Assistance Act of 2009
Home Purchase Dates	April 9, 2008, through June 30, 2009.	January 1, 2009, through November 30, 2009.	December 1, 2009, through April 30, 2010, with the closing date of the purchase by June 30, 2010. Dates extended for 1 year for individuals on qualified official extended duty outside of the United States (U.S.) for at least 90 days from December 31, 2008, to May 1, 2010.
Qualifying Individual	Individual (and spouse, if married) having no ownership interest in a principal residence in the preceding 36 months. Phase-out of the credit begins at \$75,000-\$95,000 for individuals (\$150,000-\$170,000 for married filing jointly). Individual cannot be a nonresident alien or related to the seller of the home.	Individual (and spouse, if married) having no ownership interest in a principal residence in the preceding 36 months. Phase-out of the credit begins at \$75,000-\$95,000 for individuals (\$150,000-\$170,000 for married filing jointly). Individual cannot be a nonresident alien or related to the seller of the home.	Individual (and spouse, if married) having no ownership interest in a principal residence in the preceding 36 months. Phase-out of the credit begins at \$125,000-\$145,000 for individuals (\$225,000-\$245,000 for married filing jointly). Also includes a Long-Time Resident provision if the individual (and spouse, if married) maintained the same principal residence for any 5 consecutive years during the 8 years ending on the date of the purchase.

⁸ Pub. L. No. 111-92, 123 Stat. 2984 (2009).

⁹ Pub. L. No. 110-289, 122 Stat. 2654 (2008).



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Legislation	Housing and Economic Recovery Act of 2008	American Recovery and Reinvestment Act of 2009	Worker, Homeownership, and Business Assistance Act of 2009
Amount of the Credit	10 percent of the purchase price up to a maximum of \$7,500 (\$3,750, if married filing separately).	10 percent of the purchase price up to a maximum of \$8,000 (\$4,000, if married filing separately).	10 percent of the purchase price up to a maximum of \$8,000 (\$4,000, if married filing separately). <u>Long-Time Resident:</u> Maximum of \$6,500 (\$3,250 if married filing separately).
Recapture of the Credit	Fully recaptured over 15 years beginning in the 2010 Tax Year (if 2008 claim) or 2011 Tax Year (if 2009 claim). If the taxpayer sells the home (or the home ceases to be the principal residence of the taxpayer or the taxpayer's spouse) before the end of the 15-year recapture period, any remaining credit repayment amount is immediately due on the tax return for the year in which the home is sold. In the case of an involuntary conversion, recapture is not accelerated if a new principal residence is acquired within a 2-year period.	Fully recaptured in year of sale if home is sold within 3 years of purchase. In the case of an involuntary conversion, recapture is not accelerated if a new principal residence is acquired within a 2-year period.	Fully recaptured in year of sale if home is sold within 3 years of purchase. In the case of an involuntary conversion, recapture is not accelerated if a new principal residence is acquired within a 2-year period.
Waiver of the Recapture of the Credit	Death of the taxpayer. Sale of the home (including through foreclosure) to an unrelated person with no gain on the sale.	Death of the taxpayer. Sale of the home (including through foreclosure) to an unrelated person with no gain on the sale.	Death of the taxpayer. Individuals (and spouses, if married) on qualified extended duty outside the U.S. Sale of the home (including through foreclosure) to an unrelated person with no gain on the sale.
Documentation Requirement	None.	None.	Settlement Statement (HUD-1 or equivalent) must be attached.

Source: TIGTA analysis of legislation.

The IRS expanded its Modernized e-File (MeF) System to include individual tax returns

The IRS has used the MeF system to process business tax returns for several years. In Filing Season 2010, the IRS is implementing the first phase of the MeF system that will process individual tax returns. The MeF system is replacing the current IRS *e-filing* system (referred to



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as Legacy *e-file*) with a modernized, Internet-based *e-file* platform. When completed, the MeF system will provide a single method for filing all IRS tax returns, information returns, forms, and schedules via the Internet. The MeF system provides real-time processing of tax returns and extensions that will improve error detection, standardize business rules, and expedite acknowledgments. The MeF system also allows for attachments in portable document format to accommodate late legislation and form changes.

This first phase of the MeF system for individual income tax returns includes the U.S. Individual Income Tax Return (Form 1040), Application for Automatic Extension of Time To File U.S. Individual Income Tax Return (Form 4868), and 21 forms and schedules related to the Form 1040 for Tax Year 2009.¹⁰ The IRS began accepting the Form 1040, Form 4868, and the related forms and schedules through the MeF system for processing on February 17, 2010. The IRS estimates approximately 72 million of the individual income tax returns filed during the 2010 Filing Season would qualify for the MeF system. However, the IRS is limiting the number of individual tax returns transmitted through the MeF system to 30 million with a maximum of 241,000 tax returns transmitted per hour. Remaining *e-filed* tax returns will continue to be processed through the Legacy *e-file* system.

This report provides selected information relating to the progress of the 2010 Filing Season. We have a number of additional audits that have or will be initiated that relate to areas we have reported on in our interim report.¹¹ These interim 2010 Filing Season results are being presented as of either March 5 or March 6, 2010.¹² This review was performed at the Wage and Investment Division Headquarters in Atlanta, Georgia; the Submission Processing function offices in Lanham, Maryland, and Cincinnati, Ohio; the Electronic Tax Administration and Refundable Credits function in Washington, D.C.; the Modernization and Information Technology Services organization Headquarters in New Carrollton, Maryland; and the Fresno, California; Atlanta, Georgia; Kansas City, Missouri; Cincinnati, Ohio; and Austin, Texas, Submission Processing Sites. Later this year, we will issue the 2010 Filing Season report along with other reports covering many filing season-related topics. 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 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. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹⁰ See Appendix V for a list of the specific forms and schedules that will be processed through the MeF system.

¹¹ See Appendix IV for a list of ongoing or planned audits relating to areas reported on in the interim report.

¹² Results were provided as of either March 5 or March 6, depending on the date the IRS reported the respective data.



Results of Review

Processing Tax Returns

The IRS recognized the difficulty taxpayers may have in claiming new credits and/or deductions. In an attempt to reduce this difficulty, the IRS created new forms, schedules, and instructions. The IRS also developed programming to identify taxpayers who may not have claimed credits to which they were entitled at the time they filed their tax returns. For example, the IRS computes the Making Work Pay Credit for every taxpayer when the tax returns are processed and for those eligible taxpayers who did not claim the credit, the IRS provides the credit. In addition, expanded math error authority is enabling the IRS to stop the erroneous claiming of credits/deductions at the time tax returns are processed.

However, implementing new tax legislation is still presenting some challenges for the IRS. These challenges are resulting in increases in error inventories resulting from taxpayer errors, payment of erroneous claims, delays in completing programming, and the inability to identify and prevent erroneous claims at the time tax returns are processed. In addition, errors are hindering the success of the IRS' implementation of its MeF system to process individual tax returns.

As of March 5, 2010, the IRS received nearly 61.3 million tax returns. Of those, 51.6 million were *e-filed* (approximately equal to this time last year) and nearly 9.7 million were filed on paper (a decrease of almost 20 percent from this time last year). In addition, nearly 52 million refunds totaling approximately \$160.2 billion had been issued. Figure 3 presents summary tax return filing statistics.



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Figure 3: Comparative Filing Season Statistics as of March 5, 2010

Cumulative Filing Season Data	2009 Actual	2010 Actual	% Change
Individual Income Tax Returns			
Total Returns Received (in thousands)	63,851	61,287	-4.0%
Paper Returns Received (in thousands)	12,058	9,688	-19.7%
E-filed Returns Received (in thousands)	51,793	51,600	-0.4%
Practitioner Prepared	33,349	31,880	-4.4%
Home Computer	18,444	19,720	6.9%
Free File <i>(also included in Home Computer total)</i>	1,935	1,747	-9.7%
Fillable Forms <i>(also included in Home Computer total)</i>	141	139	-1.6%
Refunds			
Total Number Issued (in thousands)	54,638	51,980	-4.9%
Total \$ (in millions)	\$153,579	\$160,186	4.3%
Average \$	\$2,811	\$3,082	9.6%
Total Number of Direct Deposits (in thousands)	44,744	44,032	-1.6%
Total Direct Deposit \$ (in millions)	\$135,614	\$143,600	5.9%

Source: IRS 2010 Weekly Filing Season Reports. Totals and percentages may not compute to those presented due to rounding.

The e-filing rate is approximately the same so far, but use of Free File continues to decrease

This year marks the 20th year of *e-filing*. Over 20 years, nearly 800 million tax returns have been *e-filed*. This year, the IRS began receiving *e-filed* tax returns on January 15, 2010. As of March 5, 2010, *e-file* volumes are about the same as the volumes for the same period in 2009; however, there is a 6.9 percent increase in tax returns from taxpayers who *e-filed* from their home computers over last year. The IRS has continued to experience steady growth in *e-filed* tax returns over the past several years. In Calendar Year 2003, of the approximately 130.1 million individual income tax returns received by the IRS, 40.7 percent were *e-filed*. In Calendar Year 2009, the percentage of *e-filed* returns increased to 66.1 percent of the total individual income tax returns received.

The traditional IRS Free File program is a free Federal online tax preparation and *e-filing* program for eligible taxpayers developed through a partnership between the IRS and the Free File Alliance LLC (group of private-sector tax preparation companies). The program enables eligible taxpayers to use commercial tax software for free. Since the inception of Free File,



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27 million taxpayers have taken advantage of this free program, accessible only through the IRS' web site, IRS.gov. In addition, for the second year, the IRS and its partners are offering Free File Fillable Forms, which opens up the Free File Program to nearly everyone, with no income limitations.

Not many taxpayers are taking advantage of the Free File or Free File Fillable Forms options.

However, not many taxpayers are taking advantage of these filing options. The Free File Program volumes have decreased by 9.7 percent from this time in 2009, with Fillable Forms totaling approximately 139,000, a decrease of 1.6 percent from 2009.

Recovery Act and Worker, Homeownership, and Business Assistance Legislation

The Recovery Act and Worker, Homeownership, and Business Assistance Legislation contain provisions to assist individual taxpayers. Figure 4 provides the volume and dollar amounts of these credits/deductions taxpayers claimed as of March 5, 2010.



Figure 4: Individual Taxpayers Claiming Certain Recovery Act Tax Benefits

American Recovery and Reinvestment Act of 2009	Number of Individual Taxpayers Claiming the Benefit Through March 5, 2010	Amount Claimed Through March 5, 2010
Making Work Pay Credit and Special Credit for Government Retirees	45.5 million	\$25 billion
American Opportunity Tax Credit	4.1 million	\$3.5 billion
First-Time Homebuyer Credit	93 thousand ¹³	\$670 million
Additional Deduction for State Sales Tax and Excise Tax on the Purchase of a Qualified Motor Vehicle	1.6 million ¹⁴	\$3 billion
Extension and Modification of Credit for Non-Business Energy Property and Modification of Credit for Residential Energy Efficient Property	2.3 million*	\$1.7 billion
Credit for Certain Plug-in Vehicles	1,191*	\$1,650,302
Conversion Kits Credit	485*	\$1,145,204

Source: TIGTA analysis of 2010 Filing Season return volumes through March 5, 2010.

* These amounts represent only those that were claimed on an *e-filed* tax return. Claims for these credits cannot be identified on paper tax returns.

Taxpayers incorrectly calculating the Making Work Pay Credit and/or not providing documentation for the First-Time Homebuyer Credit have significantly increased error workloads. The Error Resolution System is responsible for correcting taxpayer and return preparer errors, as well as errors made during IRS processing of tax returns. Prior to the start of the filing season, we alerted the IRS to inaccuracies identified in our review of controls and corresponding updates of the internal guidelines used by employees working in the IRS Error Resolution function. We identified a number of inaccuracies in these guidelines relating to new tax law changes. The inaccuracies involved missing or incorrectly updated information. The IRS made the corrections we requested.

Taxpayers are incorrectly completing tax forms and/or not providing required documentation when claiming new tax credits. Specifically, taxpayers are:

¹³ Tax returns claiming the First-Time Homebuyer Credit between February 16, 2010, and March 5, 2010.

¹⁴ The Additional Deduction for State Sales Tax and Excise Tax on the Purchase of a Qualified Motor Vehicle can be claimed on either the Itemized Deductions (Form 1040, Schedule A) or the Standard Deduction for Certain Filers (Form 1040, Schedule L). The amounts identified on Schedule L were the IRS amounts because the schedule is not transcribed. The amounts identified on Schedule A were the amounts claimed by the taxpayer.



- ***Incorrectly completing the new form Making Work Pay and Government Retiree Credits (Schedule M).*** Individuals are incorrectly computing the Making Work Pay Credit when also receiving the \$250 Economic Recovery Payment. The \$250 per person Economic Recovery Payment was sent to individuals receiving Social Security retirement and disability, and Veterans and Railroad Retirement benefits. Individuals still working in 2009 are also eligible for the Making Work Pay Credit of \$400 per worker, but must reduce the \$400 by the \$250 payment and calculate their Making Work Pay Credit on Schedule M. Since the \$250 payment was directly deposited into the same checking accounts as their Social Security or other benefit checks, some recipients did not know if they received the payment. When the amount on Schedule M does not match IRS records, it is identified as an error.

The IRS sent reminders to tax professionals that the amount on Line 10 of Schedule M must match the Economic Recovery Payment received by the taxpayer in 2009 when they noticed a number of errors relating to the calculation of this credit. If taxpayers cannot recall if they received the payment, they were advised to contact the respective agency to confirm whether they received the payment before resubmitting their tax returns claiming the Making Work Pay and Government Retiree Credits. However, to date, more than 1 million *e-filed* tax returns have been rejected and this issue is included in the top 5 errors on paper tax returns.

In response to taxpayer confusion, the IRS is providing a lookup tool, “Did I Receive an Economic Recovery Payment?” which gives taxpayers an easy way to determine if they received the one-time Economic Recovery Payment. The Internet application became available March 17, 2010, on IRS.gov. In addition, beginning March 8, 2010, taxpayers can also call a toll-free number to access the telephone application.

- ***Claiming the First-Time Homebuyer Credit but not attaching the required documentation to the tax return.*** In response to fraudulent claims received in the 2009 Filing Season, taxpayers claiming the First-Time Homebuyer Credit are now required to provide documentation such as the Settlement Statement (Form HUD-1) to support the claim for the Credit. In addition, if the taxpayer is claiming the new long-time resident credit, the documentation required above is requested along with documentation such as the Mortgage Interest Statement (Form 1098), property tax records, or homeowner’s insurance records for the 5 consecutive-year period. The IRS expects a 50 percent correspondence rate based on the tax returns submitted to date because the taxpayers failed to submit the settlement statement or submitted the wrong documents.

The IRS estimates that 50 percent of the individuals claiming the First-Time Homebuyer Credit will not attach the required documentation.

We will continue to monitor IRS efforts to reduce error inventories throughout the filing season.



Errors are hindering the successful implementation of the MeF system for individual tax returns

Our review of the implementation of the first phase of the MeF individual tax return system has raised questions as to whether the MeF system will achieve intended results. We have concerns with the low volume of tax return transmissions being received by the MeF system and the erroneous rejecting of tax returns. Both problems are negatively affecting the effectiveness of the MeF system and hindering the IRS' ability to gather sufficient information to make decisions regarding future releases of the MeF individual tax return system.

Implementation of the MeF system for individual tax returns is a significant undertaking for the IRS. The IRS has used the MeF system to process business and corporate tax returns for several years. However, in comparison, individual tax returns

Tax returns are erroneously rejected from the MeF system and volumes are significantly lower than expected.

involve many more issues resulting in more complex programming and system requirements. Recognizing the challenges in implementing the MeF system for individual tax returns, the IRS developed a volume plan to manage the volume of individual tax returns and forms processed through the MeF system. The volume management plan

limits the number of forms to be processed through the MeF system during the 2010 Filing Season so that the IRS and the tax return transmitters have an opportunity to observe system behavior and responses. The IRS intends to use the information it gathers during this filing season to improve the individual tax return segment of the MeF system for next year with the ultimate goal to have the MeF system replace the current Legacy *e-file* system in Calendar Year 2013.

Lower than expected tax return transmissions

According to the MeF system volume management plan, the IRS planned to allow for processing only 1.5 million (through the end of February 2010) of the estimated 72 million individual tax returns that met the criteria for MeF system processing. Transmissions would increase another 4.4 million through the end of March 2010. However, as of March 5, 2010, the IRS has only processed 98,596 tax returns through the MeF system. The IRS indicated that participation in the MeF system was voluntary for the 2010 Filing Season with only six transmitters actually participating in the MeF system as of March 8, 2010. According to the IRS, the volume management plan was intended to provide volume limits per tax return transmitter to maintain system performance not to establish expected tax return receipts. Regardless of the purpose of the volume management plan, low tax return transmissions negatively impact the IRS' ability to effectively evaluate MeF system performance.

Tax returns are erroneously rejecting from the MeF system

The success of the MeF system this year has been hindered as a result of erroneously rejected tax returns. The MeF system must ensure that only those tax returns that satisfy various criteria



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designed to ensure tax returns are reasonably accurate are accepted for processing. Any return that does not satisfy these criteria is returned or rejected to the tax return transmitter. As of March 5, 2010, 23,902 (24 percent) of the 98,596 tax returns transmitted to the MeF system were rejected.¹⁵ These tax returns were rejected for 1 or more of 158 of the 434 business rules (conditions that are checked for those tax returns processed through the MeF system) in place on February 17, 2010. Our analysis of 30 of these 158 business rules identified concerns with the accuracy of the MeF system tax return reject process. We alerted the IRS that 19 (63 percent) of the 30 rules we analyzed appeared to be rejecting tax returns in error or rejecting the returns without providing accurate explanations. These rules affect a variety of tax issues including the Making Work Pay Credit, Earned Income Tax Credit, and the validity of Social Security Numbers (SSN).

The IRS is actively working with us and its internal and external stakeholders to monitor and evaluate the functioning of the MeF system. The IRS has made a number of corrections and has provided guidance to the stakeholder community to ensure the MeF system meets current and future taxpayer needs. We plan to continue our evaluation of the IRS' implementation of the MeF system and we plan to issue a separate audit report.

Taxpayers are electing to use the new savings bond option and have increased use of the split refund option

On September 5, 2009, President Obama announced a new initiative to make it easier for more than 100 million families to save a portion or all of their tax refunds. Beginning in 2010, taxpayers have the ability to use their refunds to purchase U.S. Series I Savings Bonds by requesting them on their tax return. Figure 5 shows the Direct Deposit of Refund to More Than One Account (Form 8888) and new instructions developed for taxpayers to purchase the savings bonds.

If their refund is an exact multiple of \$50, but not more than \$5,000, taxpayers may request the entire amount be converted into a savings bond by simply filling out the direct deposit section of their tax return. Taxpayers whose refunds are not exact multiples of \$50 must complete a Form 8888 and identify where any remaining refund should be deposited. Through March 5, 2010, 22 taxpayers chose to convert their entire refunds in the amount of \$20,550 into savings bonds.

Taxpayers can still elect to have their Federal income tax refunds split and electronically deposited in up to three accounts (e.g., checking, savings, or Individual Retirement Arrangement) and may have up to three different U.S. financial institutions, including banks, brokerage firms, or credit unions. Form 8888 must also be prepared for this option. As of March 5, 2010, 385,882 taxpayers chose to split their refunds of \$1,701,827,906 between 2 or 3 different accounts, and \$4,644,750 of this amount went to purchase 13,784 savings bonds.

¹⁵ A tax return may be submitted and rejected by the MeF system more than one time.



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The number of taxpayers using the split refund option increased 52 percent over the same time period in 2009, and the amount of refunds increased by 63 percent.

Figure 5: Form 8888 and New Instructions on Purchasing Savings Bonds

Form 8888 Department of the Treasury Internal Revenue Service Name(s) shown on return		Direct Deposit of Refund to More Than One Account ▶ See instructions below and on back. ▶ Attach to Form 1040, Form 1040A, Form 1040EZ, Form 1040NR, Form 1040NR-EZ, Form 1040-SS, or Form 1040-PR.		OMB No. 1545-0074 2009 Attachment Sequence No. 56
			Your social security number	
1a	Amount to be deposited in first account		1a	
b	Routing number	▶ c <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
d	Account number			
2a	Amount to be deposited in second account		2a	
b	Routing number	▶ c <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
d	Account number			
3a	Amount to be deposited in third account		3a	
b	Routing number	▶ c <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
d	Account number			
4	Total amount to be directly deposited. Add lines 1a, 2a, and 3a. The total must equal the amount shown on Form 1040, line 73a; Form 1040A, line 46a; Form 1040EZ, line 12a; Form 1040NR, line 68a; Form 1040NR-EZ, line 23a; Form 1040-SS, line 13a; or Form 1040-PR, line 13a.			4

General Instructions

Purpose of Form

Use Form 8888 if you want us to directly deposit your tax refund to either two or three of your accounts at a bank or other financial institution (such as a mutual fund, brokerage firm, or credit union) in the United States. If you file Form 8888, you cannot choose to get any part of your refund as a check. You cannot request a deposit of your refund to an account that is not in your name (such as your tax preparer's own account). An account can be a checking, savings, or other account such as an individual retirement arrangement (IRA), health savings account (HSA), Archer MSA, Coverdell education savings account (ESA), or TreasuryDirect® online account. Form 8888 can also be used to buy up to \$5,000 in U.S. Series I Savings Bonds. You cannot have your refund deposited into more than one account if you file Form 8379, Injured Spouse Allocation.

Note. If you want your refund deposited to only one account, do not complete this form. Instead, request direct deposit on your tax return.

CAUTION Do not file a Form 8888 on which you have crossed out or whited out any numbers. If you do, the IRS will reject your direct deposit request and send you a check.

Why Use Direct Deposit?

- You get your refund faster by direct deposit than you do by check.
- Payment is more secure. There is no check that can get lost or stolen.
- It is more convenient. You do not have to make a trip to the bank to deposit your check.
- It saves tax dollars because it costs the government less.

CAUTION The IRS is not responsible for a lost refund if you enter the wrong account information. Check with your financial institution to get the correct routing and account numbers and to make sure your direct deposit will be accepted. Do not use the routing number on a deposit slip if it is different from the routing number on your checks.

IRA

You can have your refund (or part of it) directly deposited to a traditional IRA, Roth IRA, or SEP-IRA, but not a SIMPLE IRA. You must establish the IRA at a bank or other financial institution before you request direct deposit. Make sure your direct deposit will be accepted. You must also notify the trustee or custodian of your account of the year to which the deposit is to be applied (unless the trustee or custodian will not accept a deposit for 2009). If you do not, the trustee or custodian can assume the deposit is for the year during which you are filing your return. For example, if you file your 2009 return during 2010 and do not notify the trustee or custodian in advance, the trustee or custodian can assume the deposit to your IRA is for 2010. If you designate your deposit to be for 2009, you must verify that the deposit was actually made to the account by the due date of the return (without regard to extensions). If the deposit is not made by that date, the deposit is not an IRA contribution for 2009. In that case, you must file an amended 2009 return and reduce any IRA deduction and any retirement savings contributions credit you claimed.

CAUTION You and your spouse, if filing jointly, each may be able to contribute up to \$5,000 (\$6,000 if age 50 or older at the end of 2009) to a traditional IRA or Roth IRA for 2009. The limit for 2010 is \$5,000 (\$6,000 if age 50 or older at the end of 2010). A higher limit may apply for 2009 if you were a participant in a 401(k) plan and your employer was in bankruptcy in an earlier year. You may owe a penalty if your contributions exceed these limits.

TIP For more information on IRAs, see Pub. 590, Individual Retirement Arrangements (IRAs).

TreasuryDirect® Account

You can request a deposit of your refund (or part of it) to a TreasuryDirect® online account to buy U.S. Treasury marketable securities and bonds. For details on how to do this, go to www.treasurydirect.gov.

U.S. Series I Savings Bonds

You can request a deposit of your refund (or part of it) to buy up to \$5,000 in U.S. Series I Savings Bonds. The amount you request must be a multiple of \$50. You do not need a TreasuryDirect® account for this option. If you select this option, the bonds will be issued in your name. If you file a joint return, the bonds will be issued in the names of both you and your spouse. You cannot designate a beneficiary under this option. To select this option, just follow these steps:

- Fill in line 1a, 2a, or 3a with a dollar amount, not exceeding your total refund, that is a multiple of \$50, but not more than \$5,000. For example, if your refund is \$280, you can enter up to \$250 on the appropriate line. The remaining dollar amount must be deposited to another financial account, such as your savings or checking account.
- Enter the following routing number on line 1b, 2b, or 3b: 043736881.
- Check the "Savings" box on line 1c, 2c, or 3c.
- Enter the following letters as the account number on line 1d, 2d, or 3d: BONDS.

Note. If your refund is an exact multiple of \$50, but not more than \$5,000, and you want to use the entire amount to buy bonds, do not complete this form. Instead, enter the above information on the appropriate lines on your tax return.

For Paperwork Reduction Act Notice, see the instructions for your tax return. Cat. No. 21858A Form **8888** (2009)

Source: Form 8888 (2009).



Implementing Recovery Act and Worker, Homeownership, and Business Assistance Legislation Is Presenting Some Challenges in the 2010 Filing Season

Implementing legislation for the 2010 Filing Season required the IRS to update many tax products and perform extensive programming in an effort to ensure tax returns would be processed accurately. We identified 71 tax products (33 tax forms, 12 instructions, and 26 publications) that required updating due to legislation. Fifty-nine of the 71 tax products were updated clearly and accurately in accordance with the new tax law provisions. Of the remaining 12 tax products, 1 was unavailable for review as of March 5, 2010; 9 were incorrect, and an additional 2 that contained inconsistencies were identified after we had notified the IRS. Of the 9 that were incorrect, 4 were missing needed updates to the tax forms even though the related instructions had been updated, 4 had incomplete and/or inconsistent instructions, and 1 publication had inaccurate information.

On November 17, 2009, we notified the IRS of our concerns regarding the nine tax products that contained inconsistencies, were incomplete, and/or were inaccurate. IRS management agreed to make revisions to six and indicated that they would consider changing the Tax Year 2010 versions for the three that had already gone to print. However, as of March 5, 2010, the IRS had only revised two and partially revised another of the six tax products. Appendix VI details specific issues we raised relative to tax products and the IRS actions taken as of March 5, 2010, to address these concerns.

In addition, the programming and processing of tax returns, including credits and deductions available as a result of new legislation, are causing challenges for the IRS. These challenges include:

- Inability to track and account for credits claimed for individual tax provisions.
- Incorrect programming resulting in the allowance of erroneous claims.
- Inadequate controls to identify erroneous claims at the time tax returns are processed.
- Delay in processing tax returns with First-Time Homebuyer Credit claims.

Inability to track and account for credits claimed for individual tax provisions

The IRS is unable to track and account for credits claimed for individual tax provisions because processes have not been implemented to capture information from the following tax forms included with paper-filed tax returns:

- Electric plug-in vehicle credits on Qualified Plug-in Electric and Electric Vehicle Credit (Form 8834).
- Alternative Motor Vehicle Credit (Form 8910).



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- Qualified Plug-in Electric Drive Motor Vehicle Credit (Form 8936).

The inability to track and account for the above credits results in the IRS being unable to identify the number of taxpayers claiming the above credits and the amount of credits claimed. We alerted IRS management of their inability to track and account for Recovery Act funds. We recommended that the IRS implement Special Processing Code programming to enable the IRS to track and account for these credits filed on paper tax returns. Special Processing Codes are entered on tax returns with certain conditions to alert the computer to a special condition or computation.

The IRS agreed that it needs the ability to provide transparent reporting of Recovery Act-related credits and responded that existing and newly created processes will allow it to report on the use of these credits. Programming will be implemented to add Special Processing Codes to enable the IRS to track and account for funds allocated as part of tax provisions included in the Recovery Act for taxpayers claiming Electric Vehicle Credits on paper-filed tax returns. The implementation date for the programming was originally February 18, 2010, but was delayed to March 2, 2010. We will continue to monitor the implementation of this programming to ensure it is properly functioning.

Incorrect programming is resulting in the issuance of erroneous Making Work Pay and Government Retiree Credits

Our review identified that as of March 5, 2010, the IRS issued erroneous Making Work Pay and Government Retiree Credits to 84,705 taxpayers totaling \$24.2 million. The IRS developed programming to systemically compute the Making Work Pay and Government Retiree Credits on tax returns on which the taxpayer appears eligible for the credits. However, errors in this programming are resulting in the issuance of erroneous credits. Issuance of erroneous credits is resulting from programs:

- Incorrectly computing the Making Work Pay Credit for taxpayers without a valid SSN.
- Incorrectly computing the Making Work Pay Credit for taxpayers who indicate they are eligible to receive the Government Retiree Credit.

Taxpayers without a valid SSN erroneously received the Making Work Pay Credit

The IRS computes the amount of the Making Work Pay Credit for every Tax Year 2009 tax return processed. Tax returns in which the IRS' computation of the Making Work Pay Credit differs from the taxpayer's are sent to the Error Resolution function for tax examiner review. For the tax returns with a discrepancy, tax examiners are required to review the tax returns and disallow the credit for tax returns filed without a valid SSN. The Recovery Act provides that in



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order to be eligible for the Making Work Pay Credit the taxpayer must provide an SSN. In the case of tax returns filed as married filing jointly, one of the taxpayers must provide an SSN.¹⁶

As of March 5, 2010, we identified 518,262 tax returns in which the taxpayer filed a tax return without a valid SSN. Tax examiners successfully denied the credit for 477,675 (92 percent) of these tax returns. However, for the remaining 40,587 (8 percent), tax examiners failed to correctly disallow the credit which resulted in taxpayers incorrectly receiving more than \$15.9 million in erroneous Making Work Pay Credits. It should be noted that 36,116 of these taxpayers did not claim the Making Work Pay Credit. IRS programs computed the credit without taking into account that the taxpayer did not use a valid SSN.

On February 5, 2010, we alerted the IRS of this condition and recommended that the IRS immediately revise its tax return processing programs to not compute an amount for the Making Work Pay Credit for taxpayers who do not have a valid SSN and are not married filing jointly with a taxpayer who does have a valid SSN. IRS management responded that the issue had previously been identified as one that could be resolved through a programming change and the change is scheduled to be implemented nationwide on February 25, 2010. We determined this programming change has been made.

Taxpayers who indicate eligibility for the Government Retiree Credit are erroneously receiving excess credits

The Recovery Act provided for a special credit for certain government retirees. If a taxpayer received a pension or annuity from a government entity for work not covered by Social Security, they are entitled to the \$250 Government Retiree Credit. If the taxpayer also had income from wages or other earned income, they may also be entitled to the Making Work Pay Credit. In both situations, the Making Work Pay Credit is reduced if the taxpayer received the Economic Recovery Payment.¹⁷ These credits are calculated and reported using the Schedule M. The IRS tax return processing system computes the Making Work Pay and Government Retiree Credits on tax returns using formulas based on several factors.¹⁸ Tax returns in which the IRS' computation for these credits differs from the taxpayer's are sent to the Error Resolution function for tax examiner review.

As of March 5, 2010, we identified more than 44,118 taxpayers receiving \$8.3 million in excess Making Work Pay and Government Retiree Credits because the Making Work Pay and Government Retiree Credits were being computed incorrectly for tax returns that have a Special Processing Code "M." This code is entered on tax returns when Line 11 on Schedule M has

¹⁶ For purposes of this section of the Recovery Act, the SSN does not include a Taxpayer Identification Number issued by the IRS.

¹⁷ Economic Recovery Payments were sent to taxpayers that received Social Security benefits, Supplemental Security Income benefits, Railroad Retirement benefits, or Veteran's Affairs disability or pension benefits.

¹⁸ Factors include wages, self-employment income, Adjusted Gross Income, Economic Recovery Payment indicators, and Special Processing Codes.



either a dollar amount or the “Yes” box is checked indicating the taxpayer received a pension or annuity from a government entity for work not covered by Social Security.

On February 19, 2010, we alerted the IRS of this condition and recommended that the IRS immediately revise its return processing programs to correctly compute the Making Work Pay and Government Retiree Credits on returns with a Special Processing Code “M.” IRS management responded that manual procedures for tax examiners to correct this condition were issued. In addition, a correction to the programming was requested and the programming should be complete by April 1, 2010. We will continue to monitor the implementation of this programming to ensure it is properly functioning.

Controls are not adequate to identify some erroneous claims at the time tax returns are processed

The ability of the IRS to verify the accuracy of and eligibility for tax benefits and credits before a tax return has completed processing and prior to release of funds is the most efficient and effective approach for the IRS. However, in a prior TIGTA review,¹⁹ we reported that the IRS cannot verify the accuracy of all of the legislated requirements for 13 of the 20 Recovery Act tax benefits/credits for individual taxpayers before the tax return has completed processing. The IRS relies on taxpayers to comply with tax laws and provide correct information on their tax returns, including accurately reporting income and claiming only tax benefits and credits to which they are entitled. The IRS attempts to weigh the potential burden that providing documentation can place on taxpayers when implementing provisions.

We are continuing to review processed tax returns to confirm that the IRS is verifying specific requirements for individual tax provisions that can be validated at the time a tax return is received. For example, if a legislative provision includes a requirement that the IRS verify provisions requiring a valid SSN, we are evaluating whether the IRS is verifying the validity of the SSNs.

As of March 5, 2010, we have identified and reported to the IRS additional verifications that can be performed to help ensure the validity of benefits/credits being claimed. These include:

- *Ensuring that the plug-in vehicle credit is not being allowed for nonqualifying vehicles based on the vehicle year and in-service date.* Our review of 5,265 e-filed tax returns²⁰ processed as of March 5, 2010, identified 828 taxpayers claiming more than \$1.4 million in credits for vehicles with nonqualifying vehicle years and an additional 145 taxpayers claiming \$616,627 in credits for vehicles with nonqualifying in-service dates.

¹⁹ *Evaluation of the Internal Revenue Service’s Capability to Ensure Proper Use of Recovery Act Funds* (Reference Number 2010-41-011, dated November 27, 2009).

²⁰ As we previously discussed in this report, we are unable to identify paper tax returns with these claims as the IRS is not transcribing applicable information. The IRS has implemented a Special Processing Code to enable future identification of paper tax returns.



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- *Ensuring the plug-in vehicle credit is not allowed for nonqualifying vehicles based on the make of the vehicle.* Our review of 5,265 *e-filed* tax returns processed as of March 5, 2010, identified 955 taxpayers claiming nearly \$2.7 million in credits that do not qualify based on the make of the vehicle.

Based on our alerts, the IRS is implementing five new error codes on March 30, 2010, to reject *e-filed* tax returns with a vehicle year and/or in-service date that do not meet the tax provision requirements for the plug-in vehicle credits. In addition, instructions have been issued to tax examiners to enter a Special Processing Code on paper tax returns with these problems and the credit will be denied.

However, the IRS did not agree to verify the make of the vehicle during tax return processing because this would require IRS employees to review the forms for several hundred different types of qualifying vehicles. It would also have a significant impact on the number of tax returns that could be reviewed per hour. The IRS also believes this issue is best handled after the tax return has been processed, and a Compliance Strategy being developed for Recovery Act provisions will include tests in Fiscal Year 2011 for this issue. We are concerned with the IRS' decision because these verifications could be performed when Special Processing Codes are included. Further, the cost to address these tax returns subsequent to tax return processing will be substantially more than addressing them at the time the tax return is processed. We will continue to identify erroneous claims based on nonqualifying vehicle make.

Delay in processing tax returns with First-Time Homebuyer Credit claims

The Worker, Homeownership, and Business Assistance Act of 2009 revised, extended, and expanded the First-Time Homebuyer Credit. This legislation along with the Recovery Act required the IRS to perform extensive programming changes for the 2010 Filing Season. As a result, the IRS had to postpone processing tax returns with the First-Time Homebuyer Credit until February 16, 2010. During the postponement of the processing of these tax returns, the IRS received 91,911 tax returns nationwide with the First-Time Homebuyer Credit. Initial results indicate the programs are working properly.

As of March 5, 2010, the IRS processed 93,030 tax returns claiming \$670 million in First-Time Homebuyer Credits. We selected a sample of 123 tax returns with the First-Time Homebuyer Credit in the Fresno, California; Kansas City, Missouri; and Austin, Texas, Submission Processing Sites to determine if the tax returns are being processed correctly.²¹ Characteristics of these 123 tax returns include:

- 20 that claimed \$8,000 with attached supporting documentation.
- 60 that claimed \$8,000 with no attached supporting documentation.

²¹ Judgmental sampling was used to ensure that the original returns could be quickly obtained to evaluate the accuracy of processing.



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- 30 that claimed \$6,500 with attached supporting documentation.
- 10 that claimed \$6,500 with no attached supporting documentation.
- The remaining tax returns reported dispositions, changes in use, or repayments in Parts III and IV of the First-Time Homebuyer Credit and Repayment of the Credit (Form 5405).

As of March 5, 2010, the IRS processed 19 of the 123 tax returns we sampled.

- 18 that included supporting documentation for first-time homebuyers and long-time residents claiming the credit and were properly allowed.
- The remaining tax return did not have supporting documentation for a long-time resident claiming the credit and was properly denied.

We will continue to closely monitor the processing of tax returns claiming the credit. In addition, we have two ongoing reviews of the credit, and one audit planned for later in Fiscal Year 2010.²²

More Erroneous Refunds Are Being Detected and Stopped

Unscrupulous individuals continue to submit tax returns with false income documents to the IRS for the sole purpose of receiving a fraudulent refund from the Government. As of March 5, 2010, the IRS had identified 119,484 tax returns with \$733,195,576 being claimed in fraudulent refunds and prevented the issuance of \$720,596,970 (98 percent) of the fraudulent refunds being claimed. This represents an 82 percent increase in the number of tax returns identified as of this period last processing year.

Prior to the 2010 Filing Season, preliminary pre-refund reviews of questionable identified tax returns were performed by the Criminal Investigation Division. On October 11, 2009, the IRS transferred responsibility for the pre-refund detection activities from the Criminal Investigation Division to the Wage and Investment Division's Accounts Management function as part of its Taxpayer Assurance Program. Figure 6 shows the number of fraudulent tax returns identified by the IRS for Processing Years 2006 through 2009, as well as the refund amounts that were claimed and stopped.

²² See Appendix IV for a listing of ongoing or planned audits relating to areas reported on in the interim report.



Figure 6: Fraudulent Returns and Refunds Identified and Stopped by the Criminal Investigation Division (Processing Years 2006–2009)

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refunds Identified	Amount of Fraudulent Refunds Stopped
2006	52,255	35,523	\$271,180,566	\$188,715,519
2007	240,406	189,915	\$1,467,762,110	\$1,203,795,853
2008	380,656	306,128	\$1,959,992,377	\$1,683,912,973
2009	457,369	369,257	\$2,988,945,590	\$2,517,094,116

Source: IRS fraudulent return statistics for Processing Years 2006–2009.

Individual tax returns are sent through the IRS’ Electronic Fraud Detection System and receive a data-mining score based on the characteristics of the tax return and other data. A private vendor developed the data-mining score, which is validated and updated before each processing year based on experience and new information. The higher the data-mining score, the greater the probability that the tax return might be fraudulent.

For those tax returns meeting a certain score, the return is sent to an IRS employee to screen the tax return for fraud potential. If a tax return is selected for further verification, the refund is held until employers or third parties are contacted to verify wage information on the tax return. If the verification process is not completed within a certain time period, the held refund is automatically released. In general, if the employee concludes that a tax return contains false information (e.g., false or inflated wages), the tax return is referred to either the Accounts Management function or the Examination functions²³ for resolution. Tax returns with refundable credits, such as the Earned Income Tax Credit, and tax returns for which the refunds were issued must be sent to the Wage and Investment Division’s Examination function because the law requires the IRS to follow deficiency procedures before making an assessment in these cases.

In a prior TIGTA review²⁴ assessing the transfer of pre-refund detection activities from the Criminal Investigation Division to the Wage and Investment Division, we reported that the IRS may have underestimated the number of employees needed to screen potentially fraudulent tax returns, which could result in the IRS not having adequate staff to identify and stop fraudulent

²³ According to the referral procedures, fraudulent refund returns are forwarded to either the Wage and Investment Division Examination function or the Small Business/Self-Employed Division Examination function. The majority of fraudulent refund returns are forwarded to the Examination function in the Wage and Investment Division. For purposes of this report, we will use the generic “Examination functions,” unless we need to refer to a specific Division for clarification.

²⁴ *Insufficient and Inexperienced Staff Could Reduce the Ability to Detect and Stop Fraudulent Refunds* (Reference Number 2010-40-017, dated January 8, 2010).



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refunds. In addition, we reported that a majority of individuals performing these duties would be new seasonal employees. For the 2010 Filing Season, the Accounts Management function reported that 200 (58 percent) of the total 346 employees in the Taxpayer Assurance Program were seasonal tax examiners. However, the transfer of refund detection activities from the Criminal Investigation Division to the Accounts Management function and the significant hiring of seasonal employees have not negatively affected the IRS' efforts to identify and stop fraudulent refunds.

Providing Customer Service

Taxpayers have several options to choose from when they need assistance from the IRS, including telephone assistance through the toll-free telephone lines, face-to-face assistance at the Taxpayer Assistance Centers and Volunteer Program sites, and self-assistance through IRS.gov.

Face-to-face assistance at the Taxpayer Assistance Centers

The Taxpayer Assistance Centers are walk-in sites where taxpayers can obtain answers to both account and tax law questions, as well as receive assistance in preparing their tax returns. The IRS plans to assist more than 6.3 million taxpayers in Fiscal Year 2010. Between October 1, 2009, and February 13, 2010, the Taxpayer Assistance Centers had served 2 million taxpayers, which includes 900,000 taxpayers for the 2010 Filing Season. According to the IRS, 78 percent of the taxpayers who waited to speak to assistors at the 225 Taxpayer Assistance Centers that track wait time waited fewer than 30 minutes.

Figure 7 shows the number of contacts by product line at the Taxpayer Assistance Centers for Fiscal Years 2007 through 2010.



Figure 7: Contacts for Fiscal Years 2007–2010²⁵ (in millions)

Contacts/Product Lines	Fiscal Year			
	2007	2008	2009	2010 Projections
Tax Accounts Contacts	3.1	3.2	3.2	3.5
Forms Contacts	1.3	1.0	.8	.7
Other Contacts ²⁶	1.4	1.5	1.5	1.4
Tax Law Contacts	.8	.6	.3	.3
Tax Returns Prepared	.5	.6	.4	.4
Totals	7.1	6.9	6.2	6.3

Source: IRS management information reports.

In Fiscal Year 2007, the IRS implemented a standardized quality measurement system to measure the quality of taxpayer service at its Taxpayer Assistance Centers. Prior to this, the IRS had used our audit results to measure the accuracy of assistors’ responses to tax law questions. Our results showed an accuracy rate of 51 percent in Fiscal Year 2002. The IRS reported a 69 percent accuracy rate for Fiscal Year 2008 and a 75 percent accuracy rate for Fiscal Year 2009. As of February 28, 2010, the IRS had reported a 79 percent accuracy rate for tax law questions and a 90 percent accuracy rate for tax account questions.

Toll-free telephone assistance

As of March 6, 2010, approximately 41.5 million taxpayers contacted the IRS by calling the various Customer Account Services function²⁷ toll-free telephone assistance lines²⁸ seeking help

²⁵ The Fiscal Year 2007 data are not comparable to prior year data. In Fiscal Year 2007, the IRS changed its method of counting Taxpayer Assistance Center contacts by capturing the number of services provided rather than the number of taxpayers assisted. In Fiscal Year 2008, the IRS reverted to capturing the number of taxpayers assisted.

²⁶ Other Contacts include U.S. Departing Alien Income Tax Statement (Form 2063), date-stamping tax returns brought in by taxpayers, screening taxpayers for eligibility of service, scheduling return preparation appointments, helping taxpayers with general information such as addresses and directions to other IRS offices or other Federal Government agencies, and virtual contacts.

²⁷ The Director, Customer Account Services, Wage and Investment Division, manages tax law and account telephone calls through the Joint Operations Center.

²⁸ The IRS refers to the suite of 22 telephone lines to which taxpayers can make calls as “Customer Account Services Toll-Free.”



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in understanding the tax law and/or meeting their tax obligations.²⁹ For the 2010 Filing Season, the IRS expects increased demand because taxpayers are calling:

- To obtain the amount of their Tax Year 2008 Adjusted Gross Income (AGI). During the 2009 Filing Season, the IRS received approximately 4.8 million calls to obtain prior year AGI amounts. These calls were caused by the IRS discontinuing the use of U.S. Individual Income Tax Declaration for an IRS *e-file* Online Return (Form 8453-OL) for Tax Year 2008. Now that the Form 8453-OL is obsolete, taxpayers choosing to electronically prepare and file their tax returns are required to provide their prior year AGI or use a self-selected, five-digit Personal Identification Number (PIN) as their signature.
- To obtain information about the Recovery Act provisions such as the Making Work Pay Credit, First-Time Homebuyer Credit, Money Back for New Vehicle Purchases, and the new American Opportunity Education Credit.

In order to reduce calls to assistors requesting a prior year's AGI, the IRS developed two methods that taxpayers can use to obtain a PIN to *e-file* their Tax Year 2009 returns. The PIN can be used to *e-file* rather than the prior year's AGI.

- **An automated interactive telephone line, 1-866-704-7388.** Using their telephone keypad, taxpayers enter their SSN, date of birth, and Tax Year 2008 filing status. They are then provided a PIN they can use to *e-file* their Tax Year 2009 returns.
- **An *e-file* PIN application.** Using a web-based application on IRS.gov, taxpayers enter their name, address, date of birth, SSN, and Tax Year 2008 filing status. A PIN is then generated that taxpayers can use to *e-file* their Tax Year 2009 returns.

The IRS also provides automated messages to address the Making Work Pay Credit and other new tax legislation. Some of the tax provisions addressed on the automated messages are:

- Making Work Pay Credit.
- First-Time Homebuyer Credit.
- Economic Recovery Payments for Social Security, Veteran's Affairs, and Railroad Retirement recipients.
- Taxability of unemployment benefits.
- Changes to the Earned Income Tax Credit.
- Changes to the Child Tax Credit.

²⁹ Toll-free telephone assistance data presented in this report were taken from available IRS reports through the week ending March 6, 2010, and comparable periods for prior years.



- Changes to the Higher Education Tax Credit.
- Tax deduction for new vehicle purchases.
- Extended credits for energy-efficient improvements.

Call demand is higher than expected

From the beginning of the 2010 Filing Season, taxpayer demand for toll-free telephone assistors has been higher than planned. The IRS states that call demand is higher because more taxpayers than planned are calling to ask account-related questions. It has received more calls from individuals who owe taxes and believes the economic downturn is part of the reason. As of March 6, 2010, the IRS provided 960,161 services on the Individual Master File Balance Due application, which is 243,983 (34 percent) more than the 716,248 services provided the same period last year.

Also, the IRS believes many of the unplanned calls relate to taxpayers requesting their prior year's AGI. As of March 6, 2010, the IRS estimates that 22.8 percent of the increase in call demand is related to calls about taxpayers' prior year AGI. The IRS projected that the automated PIN telephone line and *e-file* PIN application would handle approximately 85 percent of the requests for a PIN to *e-file* their tax returns and only 15 percent would be handled by live assistors.

The IRS estimates that about 22.8 percent of the increase in call demand is related to calls about taxpayers' prior year AGI.

Of 7.1 million taxpayers contacting the IRS to obtain an *e-file* PIN, 6.4 million (90 percent) attempted to use one of the IRS automated PIN applications. However, the actual success rate for authentication for the *e-file* PIN application for the first few weeks of operation was lower than projected. From January 18 through February 27, 2010, the IRS had approximately 4.1 million attempts on the *e-file* PIN application, but only approximately 2.3 million taxpayers (57 percent) obtained PINs. As of February 27, 2010, the automated PIN telephone completions were 1.6 million. About 425,000 callers (26 percent) were eventually routed to a live assistor.

During the planning for the 2010 Filing Season, the IRS developed a contingency plan if more taxpayers than planned called to request their prior year AGI or obtain a PIN. In February 2010, the IRS changed the automated PIN telephone message to ensure only those calls it believed needed assistor interaction were routed to an assistor. To help reduce caller confusion, the IRS deployed a new in-queue announcement on the main toll-free telephone line, 1-800-829-1040, to explain to callers they need either their prior year AGI or a PIN, but not both. The IRS also increased prior year AGI telephone staffing by redeploying employees from business account applications and hiring 375 new employees to work correspondence and handle prior year AGI calls. The IRS stated it used fewer than half of these employees to assist with prior year AGI telephone calls.



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The IRS lowered its key toll-free performance goals for the 2010 Filing Season and Fiscal Year 2010

The IRS has set its Level of Service goal for the 2010 Filing Season and Fiscal Year 2010 below 80 percent. From 2003 to 2007, the IRS achieved an 80 percent or better Level of Service for the Filing Season. However, it has set the Fiscal Year 2010 Level of Service at 71 percent. The IRS plans to answer more calls through automation leaving assistors to answer the more complex questions, which usually take longer to answer.

As of March 6, 2010, the IRS planned to answer 8.2 million assistor calls (1.9 million fewer assistor calls during the 2010 Filing Season than the 2009 Filing Season) and planned to achieve a 72.5 percent Level of Service and 651 second (11 minutes) Average Speed of Answer. IRS assistors answered 8.6 million calls, achieved a 73.9 percent Level of Service, and achieved a 599 second (10 minutes) Average Speed of Answer.

Figure 8 presents a year-to-date comparison of select toll-free telephone system measures and service indicators.



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Figure 8: Toll-Free Performance Measures and Service Indicators for the 2007–2010 Filing Seasons³⁰

	2007 Through March 10	2008 Through March 8	2009 Through March 7	2010 Through March 6
Level of Service	82.2%	79.5%	58.8%	73.9%
Average Speed of Answer (seconds)	256	327	586	599
Automated Calls Answered (millions)	12.3	12.4	15.0	16.7
Customer Account Services Assistor Calls Answered (millions)	8.5	8.5	10.1	8.6
Customer Account Services Assistor Services Provided (millions)	10.2	9.9	11.6	10.2
Service Abandon Rate	13.1%	16.5%	36.6%	21.0%
Average Handle Time (seconds)	587	607	575	648
Assistor Availability	6.3%	4.9%	4.7%	5.7%
Primary Abandons ³¹ (millions)	4.2	4.3	7.0	6.1
Secondary Abandons ³² (millions)	1.5	1.9	3.4	2.6
Total Blocked Calls (millions)	0.3	0.5	3.9	0.7

Source: IRS Enterprise Telephone Data Warehouse.

One of the IRS' goals for Fiscal Year 2011 is to bring its telephone Level of Service up to 75 percent. To accomplish this, the IRS has requested a program increase of \$11.9 million and \$9 million reallocation from the Taxpayer Advocate Service, the Low Income Tax Clinic Program, Tax Counseling for the Elderly Program, and the Volunteer Income Tax Assistance Grant Program to improve the Level of Service from a projected 71 percent in Fiscal Year 2010 to a target goal of 75 percent in Fiscal Year 2011. If the \$9 million reallocation is not received, then the projected target goal for Fiscal Year 2011 would be lowered by 1 percentage point to 74 percent.

³⁰ The IRS averages its measures throughout the year. It does not weight them.

³¹ The IRS refers to calls that disconnect before reaching the queue as primary abandons.

³² A secondary abandon occurs when a caller gains access into the queue and then hangs up while waiting in the queue for the next available assistor.



Tax preparation assistance at Volunteer Program sites

The Volunteer Program plays an increasingly important role in the IRS' efforts to improve taxpayer service and facilitate participation in the tax system. It provides no-cost Federal tax return preparation and *e-filing* to underserved taxpayer segments, including low-income, elderly, disabled, and limited-English-proficient taxpayers. These taxpayers are frequently involved in complex family situations that make it difficult to correctly understand and apply tax law.

We plan to visit 39 Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites to determine if taxpayers receive quality service, including accurate preparation of their individual income tax returns. We developed scenarios designed to test quality controls and present volunteers with a wide range of tax law topics that taxpayers may need assistance with when preparing their tax returns. The scenarios require a determination of Making Work Pay Credit and Retirement Savings Contribution Credit. In addition, one scenario addresses the tax deduction for the purchase of a new vehicle.

As of March 5, 2010, we had 21 tax returns prepared with an 86 percent accuracy rate, which is higher than the 59 percent accuracy rate we reported for the 2009 Filing Season. During last year's filing season, we observed that volunteers did not always use the tools and information available when preparing tax returns. We will report our final results in August 2010. Figure 9 presents comparisons of Volunteer Program activities for the 2007 through 2010 Filing Seasons.

Figure 9: Year-to-Date Comparisons of the 2007–2010 Filing Seasons Through February 27, 2010

	2007 Actual	2008 Actual	2009 Actual	2010 Actual
Volunteer Return Preparation (in millions)	1.3	1.5	1.3	1.2
Volunteer <i>E-Filing</i>	94.4%	96.8%	98.6%	98.9%

Source: IRS 2007 through 2010 Filing Season Weekly Reports.

The IRS developed a new approach to measuring the quality of tax returns prepared by the Volunteer Program by forming a Quality Statistical Sample cadre. The cadre reviewers initiated a statistically valid sample of Volunteer Program sites, the results of which formed a benchmark of volunteer-prepared tax return accuracy for the 2009 Filing Season. The approach required that reviewers at each site review randomly selected tax returns, comparing the return information with supporting documentation, including end-of-year earning statements and information the taxpayer provided the volunteer during the mandated intake and screening process. Each year the combined result of all the return review visits is considered the formal measure of Volunteer Program-prepared tax returns. For the 2009 Filing Season, the cadre reviews concluded that 78 percent of the tax returns prepared by volunteers were accurate. We plan to monitor 12 IRS visits and randomly select a sample of the tax returns reviewed by cadre



Interim Results of the 2010 Filing Season



members to determine the accuracy of the tax returns and the effectiveness of the IRS' Quality Statistical Sample cadre review process.

Self-assistance through IRS.gov

IRS.gov continues to be one of the most visited Internet sites in the world, especially during the filing seasons. As of February 27, 2010, the IRS had reported a 4 percent decrease in the number of visits to IRS.gov over the same period in the prior filing season. It had also reported an 11.8 percent increase in the number of taxpayers obtaining their refund information online via the "Where's My Refund" option found on IRS.gov. Figure 10 shows the year-to-date comparisons of various IRS.gov activity levels for the 2007 through 2010 Filing Seasons.

Figure 10: Year-to-Date Comparisons of the 2007–2010 Filing Seasons Through February 27, 2010 (in millions)

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	% Change From 2009
IRS.gov Visits	71.7	78.7	103.9	99.8	-4%
"Where's My Refund?"	17.9	21.4	29.7	33.2	11.8%

Source: The IRS' WebTrends database and IRS 2007 - 2010 Filing Season Weekly Reports. Totals may not compute to those presented due to rounding.



Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide selected information related to the IRS 2010 Filing Season¹ results as of either March 5 or March 6, 2010. To accomplish our objective, we:

- I. Identified new tax legislation and administrative changes for the 2010 Filing Season that will have the greatest potential affect on individual taxpayers.
 - A. Reviewed tax forms, instructions, and publications to determine whether they were accurately updated with the changes.
 - B. Reviewed tax return processing procedures and change documentation to determine whether adequate controls were included to accurately process the new tax provisions during tax return processing.
- II. Determined the volumes of individual tax returns the IRS is expecting to receive during the 2010 Filing Season by obtaining and reviewing the *Calendar Year Projections of Individual Returns by Major Processing Categories* (Document 6187), Fall 2009 Update, produced by the IRS Office of Research.
- III. Identified volumes of paper and *e-filed* returns received through March 5, 2010, from the IRS Weekly Filing Season reports that provide a year-to-date comparison of scheduled return receipts to actual return receipts. The reports also provide a comparison to 2009 receipts for the same time period.
- IV. Determined the interim results of the implementation of the MeF individual tax return system.
 - A. Identified volumes of tax returns transmitted to and accepted by the MeF system for processing using the IRS Weekly E-File reports that provide a year-to-date comparison of accepted and transmitted tax returns.
 - B. Identified the volume of tax returns rejected by the MeF system using the daily MeF Error Reject Report to monitor reject volumes as well as tax return data obtained from the MeF system and the IRS Individual Return Transaction File.
 - C. Evaluated the accuracy of the MeF system tax return reject process using tax return data obtained from the MeF system and the IRS Individual Return Transaction File.

¹ See Appendix VII for a glossary of terms.



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- V. Determined whether the IRS correctly implemented new tax legislation and administrative changes that affected the processing of individual tax returns during the 2010 Filing Season. We used computer analysis of 100 percent of the Tax Year 2009 individual income tax returns processed nationally on the Individual Return Transaction File between January 1 and March 5, 2010,² to identify returns affected by recent tax legislation and administrative changes and determined if they were processed correctly. We electronically identified:
1. 45,546,537 tax returns processed claiming the Making Work Pay and Government Retiree Credits (Schedule M) through March 5, 2010.
 2. 5,265 *e-filed* tax returns processed with electric plug-in vehicle credits on Qualified Plug-in Electric and Electric Vehicle Credit (Form 8834), Alternative Motor Vehicle Credit (Form 8910), and Qualified Plug-in Electric Drive Motor Vehicle Credit (Form 8936) through March 5, 2010.
 3. 93,030 tax returns processed with a First-Time Homebuyer Credit and Repayment of the Credit (Form 5405) through March 5, 2010. In addition, we selected a judgmental sample of 123 tax returns from the Fresno, Kansas City, and Austin Submission Processing Sites to determine if they were accurately processed when they had supporting documentation or did not have supporting documentation. We used judgmental sampling to ensure that the original returns could be quickly obtained to evaluate the accuracy of processing.
- VI. Identified the interim results for the Wage and Investment Division's Accounts Management function fraudulent tax return statistics.
- A. Obtained the Questionable Refund Program Workload Comparison Summary Report as of March 6, 2010, to identify the interim IRS fraudulent tax return statistics for the 2010 Filing Season.
 - B. Obtained the Questionable Refund Program Workload Comparison Summary Report for Processing Year 2009 and reviewed a prior TIGTA report³ to obtain IRS fraudulent tax return statistics to determine the number of erroneous refunds identified and stopped for Processing Years 2006 through 2009.

² To assess the reliability of computer-processed data, programmers in the TIGTA Office of Information Technology validated the data that were extracted, and we verified the data with appropriate documentation. Judgmental samples were selected and reviewed to ensure that the amounts presented were supported by external sources. As appropriate, data in the selected data records were compared to the physical tax returns to verify that the amounts were supported.

³ *Interim Results of the 2009 Filing Season* (Reference Number: 2009-40-058, dated March 30, 2009).



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- VII. Identified interim results for the IRS Taxpayer Assistance Center Program.
 - A. Obtained from the IRS Field Assistance Office statistics on taxpayers served at the Taxpayer Assistance Centers.
 - B. Reviewed the IRS Weekly Filing Season Report, which provides a year-to-date comparison of various Taxpayer Assistance Center activity levels for the 2009 and 2010 Filing Seasons, through February 27, 2010.
- VIII. Identified interim results for the IRS Toll-Free Telephone Assistance Program.⁴
 - A. Reviewed Performance Templates and Executive Level Summary reports from the Enterprise Telephone Data Warehouse for results as of March 6, 2010.
 - B. Reviewed information relative to actions taken to address taxpayer questions for the prior year AGI and Recovery Act provisions from IRS officials.
- IX. Identified interim results for the Volunteer Program by reviewing interim results from TIGTA visits to Volunteer Program sites. A total of 22 tax returns had been prepared as of March 5, 2010.⁵
- X. Identified interim results for IRS self-assistance through IRS.gov from the IRS Weekly Filing Season Report of IRS.gov activity levels for the 2009 and 2010 Filing Seasons, through February 27, 2010.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the processes for planning, organizing, directing, and controlling program operations for the 2010 Filing Season. We also evaluated the controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing of tax returns for the 2010 Filing Season.

⁴ *Toll-Free Access During the 2010 Filing Season* (Audit Number 201040017).

⁵ *Quality of Services at Volunteer Program Sites During the 2010 Filing Season - Followup* (Audit Number 201040018).



Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Wage and Investment Division SE:W
Director, Business Modernization Office, Wage and Investment Division SE:W:BMO
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
Director, Accounts Management, Wage and Investment Division SE:W:CAS:AM
Director, Field Assistance, Wage and Investment Division SE:W:CAR:FA
Director, Joint Operations Center, Wage and Investment Division SE:W:CAS:JOC
Director, Stakeholder Partnership, Education, and Communications, Wage and Investment
Division SE:W:CAR:SPEC
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
Chief, Program Evaluation and Improvement SE:W:S:PRA:PEI
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
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Appendix IV

List of Related Treasury Inspector General for Tax Administration Reviews Ongoing or Planned

2010 Filing Season Implementation (Audit Number 201040102)

Audit Objective: Evaluate whether the IRS timely and accurately processes individual paper and *e-filed* tax returns during the 2010 Filing Season.

Processing Individual Income Tax Returns Transmitted Through the Modernized E-File System (Audit Number 200940047)

Audit Objective: Determine whether *e-filed* individual income tax returns transmitted through the MeF system are processed timely and accurately in a manner consistent with those tax returns processed in the Legacy *e-file* system.

Process to Administer the First-Time Homebuyer Credit (Audit Number 201040101)

Audit Objective: Determine whether the IRS has developed an effective strategy to administer the First-Time Homebuyer Credit and to identify circumstances that require recapture of the credit.

Toll-Free Access During the 2010 Filing Season (Audit Number 201040017)

Audit Objective: Evaluate customer service toll-free telephone access during the 2010 Filing Season. We will also follow up on a prior audit¹ to evaluate the access/service specifically provided hearing- and speech-impaired taxpayers.

Quality of Services at Volunteer Program Sites During the 2010 Filing Season - Followup (Audit Number 201040018)

Audit Objective: Determine whether taxpayers visiting Volunteer Program sites receive quality service, including accurate tax return preparation.

¹ *The Internal Revenue Service Has Opportunities to Provide Hearing- and Speech-Impaired Taxpayers With Easier Access to Toll-Free Telephone Services* (Reference Number 2003-30-111, dated May 30, 2003).



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Controls Over Erroneous Claims of the Plug-In Electric Vehicle Credit

(Audit Number 201040131)

Audit Objective: Determine whether the IRS' controls identify erroneous claims for the Plug-In Electric Vehicle Credit and prevent fraudulent claims of the Credit. Also assess whether forms, instructions, and taxpayer education efforts are adequate.

Process to Ensure Repayment of the First-Time Homebuyer Credit (Audit Number 201040107)

Audit Objective: Assess the IRS' efforts to ensure accurate and timely repayment of the First-Time Homebuyer Credit.



Appendix V

List of Tax Forms and Schedules Processed Through Modernized e-File

Form 1040 – U.S. Individual Income Tax Return

Schedule A – Itemized Deductions

Schedule B – Interest and Ordinary Dividends

Schedule C – Profit or Loss From Business

Schedule D – Capital Gains and Losses

Schedule E – Supplemental Income and Loss

Schedule EIC – Earned Income Credit

Schedule M – Making Work Pay and Government Retiree Credits

Schedule R – Credit for the Elderly or the Disabled

Schedule SE – Self-Employment Tax

Form 1099-R – Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

Form 2106 – Employee Business Expenses

Form 2210 – Underpayment of Estimated Tax by Individuals, Estates, and Trusts

Form 2441 – Child and Dependent Care Expenses

Form 4562 – Depreciation and Amortization

Form 4868 – Application of Automatic Extension of Time To File U.S. Individual Income Tax Return

Form 8283 – Noncash Charitable Contributions

Form 8812 – Additional Child Tax Credit

Form 8829 – Expenses for Business Use of Your Home

Form 8863 – Education Credits (American Opportunity, Hope, and Lifetime Learning Credits)

Form 8880 – Credit for Qualified Retirement Savings Contributions



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Form 8888 – Direct Deposit of Refund to More Than One Account

Form W-2 – Wage and Tax Statement



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Appendix VI

List of Tax Products Reviewed

Tax Products	Description of Exception Issue	Actions the IRS Agreed to Take	IRS Actions Taken
Draft Residential Energy Credits (Form 5695)	The information provided on Page 3 of the General Instructions under "Joint Occupancy" conflicted with the instructions on Page 5 for Line 6.	Update the final version with the recommended changes.	The IRS updated the instructions on Page 5 to eliminate the conflict with the instructions on Page 3.
Instructions for Draft Alternative Motor Vehicle Credit (Form 8910) and Draft Qualified Plug-in Electric Drive Motor Vehicle Credit (Form 8936) including the instructions	The instructions for these two draft forms referred taxpayers to an Internal Revenue Code section for the definition of a qualified plug-in vehicle rather than simply providing the taxpayer with the definition of a qualified plug-in electric drive motor vehicle as a four-wheeled vehicle.	Add text to Form 8910 to point out that alternative motor vehicles must have four wheels and to review the other requirements in the Internal Revenue Code to ensure they are adequately covered in the instructions.	The Instructions for the final Form 8910 and the instructions in the Final Form 8936 were both updated to define a qualified plug-in electric drive motor vehicle as a four-wheeled vehicle.
Draft Qualified Plug-in Electric and Electric Vehicle Credit (Form 8834), Draft Alternative Motor Vehicle Credit (Form 8910), and Draft Qualified Plug-in Electric Drive Motor Vehicle Credit (Form 8936) including the instructions	These three draft forms did not include a calculation step or Caution on the front of the form that informed or prevented taxpayers from claiming a double benefit for the same vehicle on more than one of these forms.	Place Cautions at the top of the 2009 Forms 8834, 8910, and 8936 similar to the Cautions used on Alcohol and Cellulosic Biofuels Credits (Form 6478) and Biodiesel and Renewable Diesel Fuels Credits (Form 8864).	The Final Form 8834 was not updated to include the Caution. The IRS stated the caution would be added in 2010. The Final Form 8910 was not updated to include the Caution. The IRS stated the caution would be added in 2010. The Final Form 8936 was not updated to include the Caution. The IRS stated the caution would be added in 2010.
<i>Highlights of 2008 Tax Changes (Publication 553)</i> (June 2009)	Under "2009 Changes" for "New plug-in electric drive motor vehicle credit" it states, "Has a gross vehicle weight rating of less than 14,000 pounds." Less than 14,000 pounds is correct for Tax Year 2010. For Tax Year 2009, the gross vehicle weight rating may be more than 26,000 pounds.	Review the tax products and articles on IRS.gov that refer to the gross vehicle weight rating to ensure they are corrected and changed as needed.	As of March 5, 2010, the Tax Year 2009 version of Publication 553 has not yet been released . The IRS stated a What's Hot topic will be posted on IRS.gov by March 31, 2010.
Instructions for U.S. Individual Income Tax Return (Form 1040) and Instructions for U.S. Individual Income Tax Return (Form 1040A)	In the brief section on the Refundable Education Credit (the American Opportunity Tax Credit or AOTC) filers are referred back to an earlier section on Education Credit where no information on this credit is provided. A reference to the Education Credits (American Opportunity, Hope, and Lifetime Learning Credits) (Form 8863) and instructions where the American Opportunity Tax Credit is fully addressed would be more helpful.	Consider updating the 2010 versions of these two tax products since the 2009 versions had already gone to print for 2009.	The TIGTA will follow up on this issue during our tax product review for the 2011 Filing Season.



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Tax Products	Description of Exception Issue	Actions the IRS Agreed to Take	IRS Actions Taken
Instructions for Form 1040 and for Form 1040A and Making Work Pay and Government Retiree Credits (Schedule M)	These three tax products do not inform the taxpayer that an SSN is required to be eligible to claim the Making Work Pay Credit and Government Retiree Credit.	Consider updating the 2010 versions of these three tax products since the 2009 versions had already gone to print for 2009.	The TIGTA will follow up on this issue during our tax product review for the 2011 Filing Season.



Appendix VII

Glossary of Terms

Adjusted Gross Income	Calculated after certain adjustments are made but before standard or itemized deductions and personal exemptions are subtracted.
Average Speed of Answer	The average number of seconds taxpayers waited in the assistor queue (on hold) before receiving services.
Blocked Call	A telephone call that cannot be connected immediately because either no circuit is available at the time the call arrives (i.e., the taxpayer receives a busy signal) or the system is programmed to block calls from entering the queue when the queue backs up beyond a defined threshold (i.e., the taxpayer receives a recorded announcement to call back at a later time).
Earned Income Tax Credit	A refundable Federal tax credit for low-income working individuals and families.
Electronic Fraud Detection System	An automated system used to maximize fraud detection at the time tax returns are filed to eliminate the issuing of questionable refunds.
Enterprise Telephone Data Warehouse	The official source for all data related to toll-free telephone system measures and indicators.
Error Resolution System	Responsible for correcting taxpayer and return preparer errors, as well as errors made during IRS processing of tax returns.
Filing Season	The period from January 1 through April 15 when most individual income tax returns are filed.
Fiscal Year	A 12 consecutive month period ending on the last day of any month, except December. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Free File Program	A free Federal tax preparation and electronic filing program for eligible taxpayers developed through a partnership between the IRS and the Free File Alliance LLC. The Alliance is a group of private-sector tax software companies.



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Individual Return Transaction File	Contains data transcribed from initial input of the original individual tax returns during return processing.
Level of Service	The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS toll-free telephone lines.
Making Work Pay Credit	A refundable tax credit of 6.2 percent of wages. The maximum credit is \$400 for individuals and \$800 for married couples.
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
Processing Year	Calendar year in which the return or document is processed by the IRS.
Questionable Refund Program	A nationwide, multi-functional program designed to detect and stop fraudulent claims for refunds on income tax returns.
Submission Processing Site	The data processing arm of the IRS. The sites process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Tax Year	The 12-month period for which tax is calculated. For most individual taxpayers, the tax year is synonymous with the calendar year.
Taxpayer Assistance Centers	Walk-in sites where taxpayers can obtain answers to both account and tax law questions, as well as receive assistance in preparing their tax returns.
Volunteer Program	Includes the Volunteer Income Tax Assistance Program, Tax Counseling for the Elderly Program, and Volunteer Income Tax Assistance Grant Program. The Volunteer Program provides free tax assistance to persons with low to moderate income (generally \$40,000 and below), the elderly, persons with disabilities, and persons with limited-English proficiency who cannot prepare their own tax returns.