
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Interim Results of the 2011 Filing Season

March 31, 2011

Reference Number: 2011-40-032

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.

Phone Number | 202-622-6500

Email Address | TIGTACommunications@tigta.treas.gov

Web Site | <http://www.tigta.gov>



HIGHLIGHTS

INTERIM RESULTS OF THE 2011 FILING SEASON

Highlights

Final Report issued on March 31, 2011

Highlights of Reference Number: 2011-40-032 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

The 2011 Filing Season involves the enactment of two significant tax laws, repayment of the First-Time Homebuyer Credit and the passage of late legislation. The IRS is also continuing migrating electronic filing (*e-filing*) to the Modernized e-File system to process individual tax returns. The objective of this review was to provide selected information related to the IRS 2011 Filing Season results as of either March 4 or March 5, 2011.

WHAT TIGTA FOUND

As of March 4, 2011, the IRS received nearly 60.5 million tax returns – 53.9 million (89 percent) were *e-filed* and nearly 6.7 million (11 percent) were filed on paper. The IRS has issued nearly 52.6 million tax refunds totaling approximately \$161.3 billion.

The passage of late legislation resulted in the IRS having Electronic Return Originators hold approximately 6.5 million *e-file* tax returns to be transmitted on February 14. In addition, the IRS held approximately 100,000 paper tax returns received prior to February 14.

Our review identified that several programming errors resulted in the incorrect populating of the IRS's computer records. Programming errors are also resulting in the issuance of erroneous

First-Time Homebuyer Credits and Non-Business Energy Property Credits.

In addition, the IRS has received returns from 9,859 individuals claiming over \$124 million in Adoption Credits, with 6,974 (71 percent) of the claims either having invalid, insufficient, or missing documentation to support the legitimacy of these claims. The IRS did not act on our recommendation to seek authority to disallow claims without proper documentation. As such, each of these claims will be sent to its Examination function.

Furthermore, as of March 4, 2011, the IRS had identified 335,341 tax returns with \$1.9 billion claimed in fraudulent refunds and prevented the issuance of \$1.8 billion (97 percent) of those fraudulent refunds. The IRS also selected 63,501 tax returns filed by prisoners for fraud screening, representing an 88 percent increase compared to last filing season.

Finally, during visits to 26 different Taxpayer Assistance Centers between November 2010 and February 2011, assistants answered all 35 tax law questions accurately. However, auditors waited an average of 62 minutes before they received assistance and, on five occasions, auditors who visited three different Centers were turned away or denied services and asked to return another day.

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, 2011

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Interim Results of the 2011 Filing Season
(Audit # 201140028)

This report presents selected information related to the Internal Revenue Service (IRS) 2011 Filing Season¹ results as of either March 4 or March 5, 2011.² As part of our Fiscal Year 2011 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.

This report was prepared to provide interim information only. Therefore, we made no recommendations in the report. However, we provided IRS management officials with an advanced copy of this report for review and comment prior to issuance.

Please contact me at (202) 622-6510 if you have questions or Michael McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-5916.

¹ See Appendix VI for a glossary of terms.

² Results were provided as of either March 4 or March 5, 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 this interim report.



Interim Results of the 2011 Filing Season

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Interim Results of the 2011 Filing Season

Abbreviations

<i>e-filed; e-file(ing)</i>	Electronically filed; electronic filing
IRS	Internal Revenue Service
MeF	Modernized e-File
QMV	Qualified Motor Vehicle
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year



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 2011, the IRS expects to receive 141 million individual income tax returns.

The IRS expects to receive 141 million individual tax returns, which includes 106 million (75 percent) e-filed tax returns.

The IRS estimates that it will process 35 million paper and 106 million electronically filed (*e-filed*) tax returns and provide customer service assistance via telephone, website, and face-to-face assistance to millions of taxpayers. The IRS plans to process individual income tax returns at four Wage and Investment Division Submission Processing sites during the 2011 Filing Season – Fresno, California; Atlanta, Georgia; Kansas City, Missouri; and Austin, Texas.

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, when 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.

Significant tax law provisions impacting the 2011 Filing Season

- ***Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010²*** – Enacted on December 17, 2010, this law extends a number of tax deductions and credits, including extending the expansion of the Earned Income Tax Credit and the American Opportunity Tax Credit. This new legislation required the IRS to reprogram its processing systems for three provisions extended by the law – State and local sales tax deduction, higher education tuition and fees deduction, and educator expenses deduction. As a result, individuals who claim one or more of these three deductions or who itemize deductions on Itemized Deductions (Form 1040 Schedule A) were unable to file their tax returns until February 14, 2011. Based on historical filing patterns, the IRS anticipated the delay would impact approximately 9 million individuals.

¹ See Appendix VI for a Glossary of Terms.

² Pub. L. No. 111-312 124 Stat. 3296 (2010).



Interim Results of the 2011 Filing Season

- ***Housing and Economic Recovery Act of 2008***³ – Enacted on July 30, 2008, this law requires individuals who purchased a home between April 9 and December 31, 2008, and claimed the First-Time Homebuyer Credit to begin repaying the credit on their Tax Year (TY) 2010 tax return. The credit is intended to be repaid over 15 years, in equal annual installments each tax year. More than 1.5 million individuals will be required to begin repaying the credit on their TY 2010 tax returns because their homes were purchased in 2008.
- ***The Patient Protection and Affordable Care Act (Affordable Care Act)***⁴ – Enacted on March 23, 2010, this law increased the Adoption Credit from \$12,150 to \$13,170 and made the tax credit refundable.⁵ The expansion of this credit is estimated to cost \$600 million in Fiscal Year 2011.

The IRS continues to migrate e-filing of individual tax returns to the Modernized e-File (MeF) system

The IRS first deployed the MeF system for individual tax returns during the 2010 Filing Season. The IRS accepted individual income tax returns through the MeF system for processing beginning February 17, 2010. The first phase of the MeF system for individual income tax returns included 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 TY 2009. For the 2010 Filing Season, the MeF system processed approximately 8.6 million tax returns and extensions for both individual and business taxpayers. However, only approximately 1 million of these tax returns were filed by individuals.

For the 2011 Filing Season, the MeF system does not provide for the filing of any additional tax forms or schedules. The primary difference between the 2010 Filing Season release and the 2011 Filing Season release is the ability for individual taxpayers to file prior year tax returns. Beginning with the 2011 Filing Season, the MeF system will be able to accept both TY 2009 and TY 2010 tax returns, with the exception of Form 4868. Form 4868 can only be accepted for the current tax year (TY 2010). Appendix V details specific tax forms and schedules that are accepted by the MeF system for individual filers. For the 2011 Filing Season, the IRS began accepting Form 1040, Form 4868, and the related forms and schedules through the MeF system for processing on January 18, 2011. The IRS estimates approximately 80 million of the individual income tax returns filed during the 2011 Filing Season would qualify for the MeF system.

³ Pub. L. No. 110-289 122 Stat. 2654 (2008).

⁴ Pub. L. No. 111-148 124 Stat. 119 (2010).

⁵ A refundable tax credit is a tax credit that is treated as a payment and can be refunded to the taxpayer by the IRS. Refundable credits can create a Federal tax refund that is larger than the amount of money a person actually paid in taxes during the year.



Interim Results of the 2011 Filing Season

This report provides selected information relating to the progress of the 2011 Filing Season. We have a number of additional audits that have been or will be initiated that relate to areas we have reported on in our interim report.⁶ These interim 2011 Filing Season results are being presented as of either March 4 or March 5, 2011.⁷ Later this year, we will issue the 2011 Filing Season report, along with other Treasury Inspector General for Tax Administration (TIGTA) reports covering many topics related to the filing season.

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 Lanham, Maryland; and the Austin, Texas, Submission Processing Site. 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.

⁶ See Appendix IV for a list of ongoing or planned audits relating to areas reported on in this interim report.

⁷ Results were provided as of either March 4 or March 5, depending on the date the IRS reported the respective data.



Interim Results of the 2011 Filing Season

Results of Review

Processing Tax Returns

The start of the 2011 Filing Season began on January 14, 2011, for the majority of individuals. However, because of the late passage of the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* (enacted December 17, 2010) individuals claiming certain deductions or itemizing on Schedule A had to wait until February 14, 2011, to file their individual tax returns. The delay impacted both individuals who file via paper and *e-file*. The IRS reported that it had Electronic Return Originators hold approximately 6.5 million *e-file* tax returns to be transmitted on February 14. In addition, as of February 11, 2011, the IRS had received and held for processing approximately 100,000 paper tax returns.

In addition, the IRS recognized that the changes to the Adoption Credit could increase the risk of erroneous claims and developed a strategy in an attempt to address these risks. This strategy includes the IRS issuing guidance on September 29, 2010, requiring individuals to complete a Qualified Adoption Expenses (Form 8839), as well as include one or more adoption-related documents with their TY 2010 tax returns supporting the legitimacy of the claim. Because specific documentation has to be attached to the tax return, individuals claiming the Adoption Credit have to file paper tax returns.⁸

The IRS also has developed processes and procedures to assist individuals with the First-Time Homebuyer Credit repayment requirements. Individuals who purchased a home between April 9 and December 31, 2008, and claimed the credit are required to begin repaying the credit on their TY 2010 tax return. To assist these individuals, the IRS is issuing notices that detail repayment requirements. These notices provide key information as to when individuals have to repay the First-Time Homebuyer Credit. For example, during September and November 2010, the IRS issued Notice CP03a, *Repaying your First Time Homebuyer Credit*, to 1.5 million individuals who must repay the credit over 15 years, beginning in TY 2010. This notice will be sent to individuals each year until the First-Time Homebuyer Credit is fully repaid. The notice lists the amount of the credit the individuals received and the amount to be repaid as additional tax.

However, implementing some provisions included in the new tax legislation is presenting challenges for the IRS. These challenges are resulting in delays in completing programming, delays in the filing of tax returns with certain deductions, payments of erroneous claims, and the inability to identify and prevent erroneous claims at the time tax returns are processed.

⁸ The IRS is currently expanding individual tax return *e-filing* through its MeF system. Once this system replaces the IRS's Legacy System, individuals will be able to scan and include documents when *e-filing*.



Interim Results of the 2011 Filing Season

The IRS received nearly 60.5 million tax returns as of March 4, 2011. Of those, 53.9 million (89 percent) were *e-filed* and nearly 6.7 million (11 percent) were filed on paper (a decrease of over 30 percent from this time last year).⁹ In addition, nearly 52.6 million refunds totaling approximately \$161.3 billion had been issued. Figure 1 presents a summary of tax return filing statistics as of March 4, 2011.

Figure 1: Comparative Filing Season Statistics as of March 4, 2011

Cumulative Filing Season Data	2010 Actual	2011 Actual	% Change
Individual Income Tax Returns			
Total Returns Received (in thousands)	61,287	60,535	-1.2%
Paper Returns Received (in thousands)	9,688	6,672	-31.1%
E-Filed Returns Received (in thousands)	51,600	53,863	4.4%
Practitioner Prepared	31,880	32,686	2.5%
Home Computer	19,720	21,182	7.4%
Free File <i>(also included in Home Computer total)</i>	1,832	1,610	-12.1%
Fillable Forms <i>(also included in Home Computer total)</i>	135	172	27.9%
Refunds			
Total Number Issued (in thousands)	51,980	52,564	1.1%
Total \$ (in millions)	\$160,186	\$161,345	0.7%
Average \$	\$3,082	\$3,070	-0.4%
Total Number of Direct Deposits (in thousands)	44,032	45,357	3.0%
Total Direct Deposit \$ (in millions)	\$143,600	\$145,972	1.7%

Source: IRS 2011 Weekly Filing Season Reports. Totals and percentages may not compute to those presented due to rounding.

The e-filing rate is higher and use of fillable forms is increasing; however, use of the Free File Program continues to decrease

This year marks the 21st year of *e-filing*, and the IRS is approaching one billion electronic tax returns processed since implementation. The IRS began receiving *e-filed* tax returns for TY 2010 on January 14, 2011. As of March 4, 2011, *e-file* volumes are 4.4 percent higher than the volumes for the same period in 2010. The biggest increase over last year (7.4 percent) is

⁹ The IRS anticipated receiving fewer tax returns early in the filing season due to some tax returns being held for processing until February 14, 2011.



Interim Results of the 2011 Filing Season

from individuals *e-filing* their tax returns from home computers. In Calendar Year 2010, the percentage of *e-filed* tax returns increased to 69.3 percent of the total individual income tax returns received. The IRS anticipates that *e-filing* of tax returns will continue to grow. The total *e-file* volumes are projected to increase in Calendar Year 2011 by about 8.3 percent (8.1 million), partially due to the preparer mandate.¹⁰

In addition, for the third year, the IRS and its partners are offering Free File Fillable Tax Forms, which opens up the Free File Program to nearly everyone, with no income limitations. Unlike the 2010 Filing Season, more individuals are taking advantage of this filing option. Use of Fillable Forms has increased to approximately 172,000, an increase of 27.9 percent from 2010. However, participation in the Free File Program has decreased by 12.1 percent when compared to the same period in 2010. 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 (a group of private-sector tax preparation companies). The program enables eligible taxpayers to use commercial tax software for free, accessible only through the IRS's website, IRS.gov.

Key statistics relating to significant tax law provisions

Figure 2 provides volumes and dollars associated with the First-Time Homebuyer Credit and the Adoption Credit as of March 4, 2011.

Figure 2: Summarization of Repayments and Claims for the First-Time Homebuyer Credit and Claims for Adoption Credit as of March 4, 2011

Legislation	Number of Individual Taxpayers Affected Through March 4, 2011	Amount Repaid/Claimed Through March 4, 2011
First-Time Homebuyer Credit		
<ul style="list-style-type: none"> • <i>Individuals Reporting Homebuyer Credit Installment Repayments</i> 	275,313	\$130 million
<ul style="list-style-type: none"> • <i>Individuals Filing New Claims for the Homebuyer Credit</i> 	37,273	\$262 million
Adoption Credit	9,859	\$125 million

Source: TIGTA analysis of 2011 Filing Season tax return volumes through March 4, 2011.

¹⁰ The preparer mandate is legislation that requires preparers who expect to file more than 10 individual tax returns to file electronically in Calendar Year 2011. The IRS is phasing this legislation in through Calendar Year 2012.



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Participation in the MeF system for individual tax returns is growing

Tax return transmitters and States are *e-filing* individual tax returns through the MeF system at a higher rate than in 2010. Figure 3 provides a comparison of the number of transmitters and States participating in the MeF system during the 2010 Filing Season and 2011 Filing Season for individual tax returns.

Figure 3: Comparison of MeF System Transmitters as of March 4, 2011

Number of Transmitters	2010 ¹¹	2011	% Change
Total Return Transmitters	22	35	59%
Return Transmitters Participating in MeF			
Return Transmitters	11	14	27%
States	11	21	91%

Source: TIGTA analysis of 2011 MeF transmitter statistics through March 4, 2011.

As of March 4, 2011, the IRS had received over 3 million individual tax returns through the MeF system. This represents a 225 percent increase over the total number of tax returns (1,049,000) the IRS received through this system during the entire 2010 Filing Season. The IRS began accepting individual tax returns through the MeF system approximately 30 days earlier than it did last year. Figure 4 below provides a comparison of the volume of individual tax returns transmitted as of March 4, 2011, to the total number of tax returns transmitted during the entire 2010 Filing Season.

Figure 4: Comparison of MeF System Tax Return Volumes

Number of Returns Processed	2010	2011 As of March 4, 2011	% Change
Total Number Received (in thousands)	1,049	3,410	225%
Number Accepted (in thousands)	819	2,939	258%
Number Rejected (in thousands)	230	471	104%

Source: TIGTA analyses of filing season return volumes through March 4, 2011.

We plan to continue our evaluation of the IRS's implementation of the MeF system, and we will issue a separate audit report on the results.

¹¹ Data for the 2010 Filing Season is through April 15, 2010.



Interim Results of the 2011 Filing Season

Individuals have increased the use of the savings bond and split refund options

Beginning with the 2010 Filing Season, individuals had the ability to use their tax refunds to purchase up to \$5,000 in U.S. Series I Savings Bonds by requesting them on their tax return. Individuals may request any portion of their tax refund that is an exact multiple of \$50 be used to purchase up to 3 savings bonds for themselves or other persons by simply filling out the Allocation of Refund (Including Savings Bond Purchases) (Form 8888). Through March 4, 2011, 16,418 individuals chose to convert tax refunds totaling over \$4.3 million into savings bonds. This represents a 19 percent increase over the number of individuals electing to convert their tax refunds to savings bonds during the same period last filing season.

Individuals 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 4, 2011, 525,001 individuals chose to split tax refunds totaling more than \$2.3 billion between 2 or 3 different checking and savings accounts. The number of individuals using the split refund option increased 36 percent over the same period in 2010, and the amount of refunds increased by almost 36 percent.

Taxpayers are electing to participate in a new option of receiving tax refunds as a prepaid debit card

The U.S. Department of the Treasury launched a pilot program this tax season to offer individuals a safe, convenient, and low-cost financial account for the electronic delivery of their Federal tax refunds. The new account option holds the potential to streamline the tax administration process. For the pilot, the Department of the Treasury mailed letters to 600,000 low- and moderate-income individuals nationwide. The letters invite these individuals to consider activating a MyAccountCard Visa® Prepaid Debit Card in time to have their TY 2010 Federal tax refund direct deposited to the card. MyAccountCard is a reloadable, prepaid Visa® debit card that is accepted everywhere Visa® debit is accepted.

The letters mailed to individuals about the MyAccountCard contain information about the card's features, including free services and the fee structure for optional services. The information also explains how to sign up and how to use the card to receive a Federal tax refund and conduct everyday financial transactions. As part of the pilot, the Department of the Treasury will randomly offer several different variations of the MyAccountCard in order to evaluate which product features, fee structures, and marketing messages generate the greatest positive response from taxpayers. The results of the pilot will help determine the benefits and feasibility of a card account as an integrated part of the tax filing and refund process. We are working with the Department of the Treasury to obtain information as to the number of individuals taking advantage of this new option.



Implementing Provisions Included in New Tax Legislation Is Presenting Some Challenges

Implementing some provisions included in legislation for the 2011 Filing Season required the IRS to update many tax products and perform extensive computer programming in an effort to ensure tax returns would be processed accurately. We selected for review 25 tax products (13 tax forms, 5 instructions, and 7 publications) that required updating due to legislation. Our review identified that 22 of the 25 tax products were updated clearly and accurately in accordance with the new tax law provisions. The remaining three tax products were incorrect when we reviewed them in draft form. Of the three that were incorrect, two had inaccurate information and one had incorrect page number references. On December 20, 2010, we notified the IRS of our concerns regarding the three tax products we identified as having inaccuracies and inconsistencies. IRS management agreed to make revisions to these tax products, and the final versions of all three tax products were accurate and consistent.

In addition, on February 9, 2011, we noticed that the tax products relating to the Adoption Credit, including Form 8839 and the related instructions, were not available on the IRS's website (www.irs.gov). We notified the IRS that day of our concerns regarding the delayed release of these tax products, which could interfere with a taxpayer's ability to claim the Adoption Credit in a proper and timely manner. Subsequently, the IRS responded that Form 8839 had been posted on February 9, 2011. The instructions for Form 8839 were later posted on February 17, 2011, after the IRS had worked with IRS Counsel to approve the extensive changes that were made to the separate instructions.

An IRS computer system incorrectly/incompletely reflects some credit/deduction amounts

Our review of the processing of tax returns claiming credits or deductions resulting from the new legislation has identified several programming errors resulting in the incorrect populating of the IRS's Individual Return Transaction File. Errors we have identified to date include:

- **Standard Deduction for Certain Filers (Form 1040, Schedule L)** – The amount of the Motor Vehicle Sales Tax Deduction claimed by an individual who files a Schedule L is incorrectly being shown as a Real Estate Tax Deduction in an IRS computer system. It should be noted that the Real Estate Tax Deduction was not extended to individuals filing a TY 2010 tax return. We notified the IRS of the programming error. On March 21, 2011, we received IRS management's response in regard to the Form 1040, Schedule L, programming. The IRS plans to implement new programming to correct Motor Vehicle Sales Tax Deduction from being shown as a Real Estate Tax Deduction by June 1, 2011.
- **Adoption Credit** – The actual dollar amount an individual claims for the Adoption Credit is shown incorrectly in an IRS computer system. We notified the IRS of the programming error. On March 15, 2011, we received IRS management's response in regard to the



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Adoption Credit programming. The IRS implemented new programming on March 8, 2011, to correct the amount of the Adoption Credit claimed by individuals on IRS computer systems.

- **Mortgage Interest Credit (Form 8396) and Qualified Plug-in Electric Drive Motor Vehicle Credit (Form 8936)** – The amount of the Mortgage Interest Credit claimed by an individual who files a Form 8396 is incorrectly being shown as a Qualified Plug-in Electric Drive Motor Vehicle Credit in an IRS computer system. Additionally, the amount of the Qualified Plug-in Electric Drive Motor Vehicle Credit claimed by an individual who files a Form 8936 is incorrectly being shown as the Mortgage Interest Credit in an IRS computer system. At the time of this report, we still have not received IRS management's response to this programming error. We will continue to monitor these issues during the filing season.
- **First-Time Homebuyer Credit** – The expected repayment amount fields are incorrect. As of March 4, 2011, our review identified 275,313 individuals who have reported installment payments totaling nearly \$130 million for the First-Time Homebuyer Credit. This is a difference of over \$3.3 million from what an IRS computer system is calculating. We also identified 2,764 individuals who were required to report \$1.1 million in installment payments but did not. The IRS assessed \$956,058 (86 percent) in additional taxes of the total \$1.1 million due and a notice was issued to the individuals to advise them that the IRS calculated the repayment installment amount and adjusted the total tax on their tax return.

The IRS developed a process to identify individuals who do not pay the required repayment amount. The IRS established an amount field¹² on its computer systems, which is the amount the IRS is expecting the individual to report on First-Time Homebuyer Credit (Form 5405). When tax returns come in, the IRS matches what is paid to what was supposed to be paid. If a discrepancy exists the tax return is sent to Error Resolution. However, we identified that this amount field did not contain a repayment amount for most individuals with a repayment requirement (approximately 80 percent) whose tax return was processed during January 22 through February 5, 2011. As a result, a large number of tax returns are being sent to Error Resolution as errors. We alerted the IRS on February 16, 2011, and the IRS responded that the programming is being revised; however, as of March 23, the IRS still has not corrected the programming problem. As of March 17, 2011, the IRS has assigned an error condition to 313,950 tax returns where the repayment field does not agree with the IRS's repayment amount. We will continue to monitor IRS processing of tax returns with First-Time Homebuyer Credit repayment requirements.

¹² The IRS calculates this amount based on 1/15th of the First-Time Homebuyer Credit amount received by the individual.



Incorrect programming is resulting in the issuance of erroneous First-Time Homebuyer Credits and Non-Business Energy Property Credits

Taxpayers are continuing to erroneously receive First-Time Homebuyer Credit claims with ineligible purchase dates

As of March 4, 2011, during the 2011 Filing Season, we identified 54 individuals who were allowed \$331,557 in erroneous First-Time Homebuyer Credits based on an ineligible purchase date. We believe these resulted from tax examiner errors and are verifying this with the IRS.

In addition, we provided the IRS with a listing of 4,417 individuals that, during the period May 30 through December 25, 2010, were allowed \$27.8 million in erroneous First-Time Homebuyer Credits. This is the period of time subsequent to our identification of erroneous First-Time Homebuyer Credits during the 2010 Filing Season. We identified that:

- 2,812 individuals were allowed \$16.4 million in erroneous First-Time Homebuyer Credits as long-time residents with purchase dates prior to November 6, 2009.
- 1,605 individuals were allowed \$11.4 million in erroneous First-Time Homebuyer Credits with home purchase dates subsequent to the filing dates of the tax returns.

We alerted the IRS on February 23, 2011, of our concerns regarding the allowance of erroneous First-Time Homebuyer Credits based on ineligible purchase dates. In response, the IRS agreed to use third-party property records to verify whether the individuals identified by the TIGTA were entitled to the credit by July 2011 and to continue identifying erroneous claims based on ineligible purchase dates.

Individuals are erroneously claiming Non-Business Energy Property Credits in excess of the limit

As of March 4, 2011, we have identified 51,185 individuals who erroneously claimed the Non-Business Energy Property Credit for one main home in TY 2009 and again claimed it for one main home in TY 2010. For the 2-year period, these individuals erroneously claimed in excess of \$34.4 million in Non-Business Energy Property Credits. Individuals may take a credit up to 30 percent of the costs paid or incurred in TY 2010 for any qualifying energy-efficient improvements and any residential energy property. The credit is limited to a total of \$1,500 over TYs 2009 and 2010.

We issued an Email Alert to the IRS on February 23, 2011, recommending that the IRS immediately develop a process to prevent individuals from receiving more than the allowable maximum amount of the Non-Business Energy Property Credit. We also recommended the IRS initiate a recovery program for the 51,185 individuals the TIGTA identified that claimed over the allowable maximum amount of the credit. At the time of this report, we still had not received IRS management's response. We will continue to monitor the IRS's processing of tax returns with Non-Business Energy Property Credits.



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Individuals are erroneously claiming Qualified Plug-in Electric Drive Motor Vehicle Credits

As of March 4, 2011, we determined that 166 (88 percent) of the 189 individuals claiming the Qualified Plug-in Electric Drive Motor Vehicle Credit reported nonqualifying makes of vehicles. The amount erroneously claimed totals \$498,688, or 80 percent of all claims.

We identified this in a prior TIGTA report¹³ and recommended the IRS develop a process to ensure individuals are not erroneously claiming vehicles with nonqualifying vehicle makes and models. The IRS agreed with this recommendation and, for the 2011 Filing Season, IRS examiners should be performing a review of the make and model of the vehicle claimed on each Form 8936. We will continue to monitor the IRS's processing of tax returns with Qualified Plug-in Electric Drive Motor Vehicle Credits.

Indications that individuals may be erroneously claiming the Qualified Motor Vehicle Deduction

As of March 4, 2011, we have identified 218,069 individuals claiming \$315 million in Qualified Motor Vehicle (QMV) Deductions. The circumstances for which individuals can claim a QMV Deduction on their TY 2010 tax return, in our opinion, would be unusual and, as a result, deductions should not involve a large number of individuals. For example, for TY 2010, an individual may claim the QMV Deduction for a vehicle that was purchased in 2009 but for which State and local sales taxes were paid after December 31, 2009. In other words, an individual purchases a new vehicle in 2009, but does not pay sales or excise tax until 2010.

We alerted IRS management on February 23, 2011, of our concerns relating to the high volume of QMV Deductions. The IRS responded that it will continue to identify individuals claiming excessive deductions and has provided its research group with the Social Security Numbers of the individuals we identified as having claimed the QMV Deduction in the 2011 Filing Season. The IRS's research group plans to do additional analysis to determine the validity of these deductions. We will continue to monitor the IRS's processing of tax returns with QMV Deductions.

Authority to address Adoption Credit noncompliance is limited and processes do not ensure individuals are not erroneously claiming amounts in excess of credit limits

Our analysis of the IRS's Adoption Credit processing controls identified that although the IRS requires individuals to attach documentation to their tax returns in support of adoptions, the IRS does not have math error authority to deny Adoption Credits if documentation is not provided. Without this authority, the IRS cannot deny the credit during processing of the tax return, but must instead deny the credit post-processing, pre-refund, through the examination process, which is much more costly and resource intensive.

¹³ *Individuals Received Millions of Dollars in Erroneous Plug-in Electric and Alternative Motor Vehicle Credits*, (Reference Number 2011-41-011, dated January 21, 2011).



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On October 29, 2010, we issued an Email Alert and recommended that the IRS work with the Department of the Treasury to make a request for such authority from Congress. However, the IRS did not agree with this recommendation. The IRS responded that it has developed and implemented sufficient filters and compliance tools to handle potential Adoption Credit fraud. These filters and compliance tools include identifying tax returns which do not meet specific requirements for claiming the adoption credit. All tax returns not meeting one or more of these requirements will be sent to the Examination function for review.

While we agree that such actions are necessary, referring the cases to Examination in lieu of obtaining math error authority will result in delays and additional taxpayer burden. As of March 4, 2011, the IRS has received 9,859 individual claims for more than \$124 million in Adoption Credits. Of the 9,859 Adoption Credit claims, 6,974 (71 percent) of the claims either had no required documentation attached to the tax return or the documentation was either invalid or insufficient. According to IRS procedures, each of these claims will be sent to the Examination function for further review. We will continue to monitor the IRS's processing of tax returns with Adoption Credit claims.

Individuals are claiming Adoption Credits in excess of allowed amounts

We identified 1,081 individuals who claimed Adoption Credits for the same child that exceed the allowable amount. These individuals erroneously received more than \$3.9 million in Adoption Credits for 1,081 children. Although the IRS has a process to ensure individuals do not claim in excess of the allowed amount in any one tax year, prior to this filing season, the IRS did not have a process to ensure individuals do not claim in excess of the allowed amount when claiming the same child over multiple tax years.

Prior to the 2011 Filing Season, the Adoption Credit was a nonrefundable credit. Therefore, the amount of the credit was limited to the amount of the tax liability on the tax return. If the credit exceeded the amount of the tax liability, an individual was allowed to carry this amount to the next 5 tax years or until used, whichever comes first. The maximum amount of the credit for TY 2009 was \$12,150 for each child. For the 2011 Filing Season, individuals can still carryover any unused Adoption Credit amounts to their TY 2010 tax returns. However, unlike prior years, the credit is now refundable, so the individual will get the entire amount of the carried-over Adoption Credit that exceeds the amount of the tax liability on the tax return. For example:

Taxpayer A is allowed to claim the credit for qualified adoption expenses up to \$11,390 for TY 2007, up to \$11,650 for TY 2008, and up to \$12,150 for TY 2009 for the same child. For TY 2007, Taxpayer A received \$11,390 for qualified adoption expenses for one child. In TY 2008, Taxpayer A again received \$11,650 for qualified adoption expenses for the same child, plus \$15,000 carried forward from TY 2007. In TY 2009, Taxpayer A received \$12,150 for the same child, plus \$20,000 carried forward from TY 2008. In total, Taxpayer A received \$70,190 in Adoption Credit for the same child, when Taxpayer A was only entitled to a maximum of \$12,150 for the child.



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We issued an Email Alert to the IRS on February 17, 2011, and recommended that the IRS develop a process to prevent individuals from receiving more than the allowable maximum amount of the Adoption Credit for each child when claiming the credit over multiple tax years. The IRS responded that it had examination filters in place to address individuals claiming more than the allowable amount after the first year of an Adoption Credit claim. The filter is programmed to look back to the prior 5 years (since the individual can carry forward up to 5 years) to determine the total Adoption Credit expenses claimed for the same child. In December 2010, the IRS only identified 497 individuals of the 1,081 we identified. It did not identify the remaining 584 individuals with claims totaling more than \$1.8 million in Adoption Credits. We will continue to identify individuals claiming erroneous Adoption Credits.

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 4, 2011, the IRS had identified 335,341 tax returns with \$1,881,329,757 being claimed in fraudulent refunds and prevented the issuance of \$1,819,801,718 (97 percent) of the fraudulent refunds being claimed. This represents a 181 percent increase in the number of tax returns identified as of this period last processing year.

Figure 5 shows the number of fraudulent tax returns identified by the IRS for Processing Years 2008 through 2010, as well as the refund amounts that were claimed and stopped.

Figure 5: Fraudulent Returns and Refunds Identified and Stopped in Processing Years 2008–2010

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refunds Identified	Amount of Fraudulent Refunds Stopped
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
2010	971,511	881,303	\$7,300,996,194	\$6,931,931,314

Source: IRS fraudulent return statistics for Processing Years 2008–2010.

Individual tax returns are sent through the IRS's Electronic Fraud Detection System and receive a data-mining score based on the characteristics of the tax return and other data. For those tax returns meeting a certain score, the tax return is sent to an IRS tax examiner to screen the tax return for fraud potential. If a tax return is selected for further verification, the tax 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 tax 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 either resolved in the Accounts Management



Interim Results of the 2011 Filing Season

function or referred to one of the Examination functions¹⁴ 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.

Screening of prisoner tax returns has increased significantly

In a prior TIGTA review¹⁵ assessing the IRS fraudulent tax return screening process, we reported that the majority of tax returns identified as being filed by prisoners are not sent to a tax examiner for screening to assess the potential that the tax return is fraudulent. As of March 4, 2011, the IRS had selected 63,501 tax returns filed by prisoners for screening. This represents an 88 percent increase in the number of prisoner tax returns identified as of this period last processing year that were sent to a tax examiner to assess fraud potential. Figure 6 shows a comparison of the number of tax returns filed by prisoners that were sent to a tax examiner for screening as of the first week in March for Processing Years 2010 and 2011.

Figure 6: Prisoner Tax Returns Identified for Screening in Filing Seasons 2010–2011 (as of the first week in March)

Processing Year	Number of Prisoner Tax Returns Identified for Screening	Increase from Prior Year
2010	33,691	
2011	63,501	88%

Source: IRS fraudulent return statistics for Processing Years 2010–2011 as of the first week in March.

¹⁴ 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.

¹⁵ *Expanded Access to Wage and Withholding Information Can Improve Identification of Fraudulent Tax Returns* (Reference Number 2010-40-129, dated September 30, 2010).



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 6.5 million taxpayers in Fiscal Year 2011. Between October 1, 2010, and February 26, 2011, the Taxpayer Assistance Centers had served 2.3 million walk-in taxpayers, which includes 1.2 million walk-in taxpayers for the 2011 Filing Season. According to the IRS, 76 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 2008 through 2011.

**Figure 7: Contacts for Fiscal Years 2008–2011
(in millions)**

Contacts/Product Lines	Fiscal Year			
	2008	2009	2010	2011 Projections
Tax Accounts Contacts	3.2	3.2	3.5	3.7
Forms Contacts	1.0	0.8	0.7	0.6
Other Contacts ¹⁶	1.5	1.5	1.5	1.5
Tax Law Contacts	0.6	0.3	0.3	0.3
Tax Returns Prepared	0.6	0.4	0.4	0.4
Totals	6.9	6.2	6.4	6.5

Source: IRS management information reports.

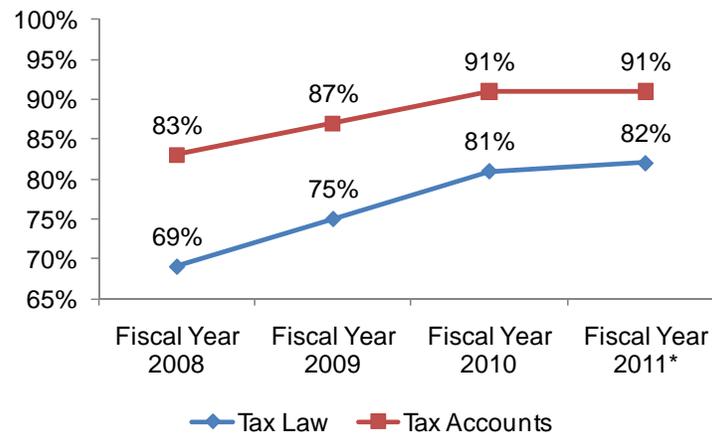
¹⁶ Other Contacts includes U.S. Departing Alien Income Tax Statement (Form 2063), date-stamping tax returns brought in by taxpayers, screening taxpayers for eligibility of service, scheduling return preparation appointments, and helping taxpayers with general information such as addresses and directions to other IRS offices or other Federal Government agencies.



Interim Results of the 2011 Filing Season

In Fiscal Year 2007, the IRS implemented a standardized quality measurement system to measure the quality of taxpayer service at its Taxpayer Assistance Centers. Fiscal Year 2007 was the baseline year. As shown in Figure 8, the accuracy rates are above 80 percent.

Figure 8: Accuracy Rates for Fiscal Years 2008–2011



Source: IRS management information reports. *=Projected.

As part of a 2011 Filing Season audit to assess the quality of customer service the IRS provides to taxpayers who seek assistance when filing their tax returns,¹⁷ auditors posed as taxpayers and made 40 visits to 26 Taxpayer Assistance Centers to ask tax law questions and use the Facilitated Self-Assistance kiosks.

Taxpayer Assistance Center assistors provided accurate answers, but auditors waited on average 1 hour to speak with an assistor

During visits to 26 different Taxpayer Assistance Centers between November 2010 and February 2011, assistors answered all 35 tax law questions accurately. However, auditors waited an average of 62 minutes before they received assistance. The wait times ranged from no wait time to 4 hours. On five occasions, auditors who visited three different Taxpayer Assistance Centers were turned away or denied services and asked to return another day.

The IRS is piloting the Facilitated Self-Assistance kiosks at some Taxpayer Assistance Centers, but they were available in only three Taxpayer Assistance Centers visited. Nevertheless, in only one instance were auditors allowed to use the service. IRS management stated employees were in the process of learning the system at the time of our visits.

¹⁷ Taxpayer Experience (Followup), Audit Number 201140008, to determine the quality of customer service the IRS provides to taxpayers who seek assistance when filing their tax returns; for example, assistance received from Taxpayer Assistance Centers, Toll-Free Telephone, Volunteer Programs, and IRS.gov.



Interim Results of the 2011 Filing Season

Not all forms and publications were available

Forms and publications were not always available at Taxpayer Assistance Centers visited during January and February 2011. Twenty-five to 40 percent of the shelves holding the forms and publications were empty. Among the most notable forms and publications missing were Forms 1040 and 1040A and the related instructions, Your Federal Income Tax (For Individuals) (Publication 17), and many Spanish forms and publications.

The IRS had to delay the printing of many forms because of the late passage of legislation.¹⁸ These included Forms 1040 and 1040A and the related instructions.

New screening guidelines and procedures

Thirty-six of our 40 visits to Taxpayer Assistance Centers were made after new guidelines for Taxpayer Assistance Centers were established in January 1, 2011. The new guidelines require that assistors ask for a taxpayer's identification and Social Security Number for authentication purposes before they can provide assistance.

For 32 of the 36 visits for which auditors were provided service,¹⁹ Taxpayer Assistance Center employees asked for the auditors' identification and Social Security Number before providing them service in only 7 (22 percent) of 32 instances. They did not follow procedures for the remaining 25 visits. Either they did not ask for any identification or they asked for one or the other, but not both the identification and Social Security Number.

These are new procedures, and screeners and assistors do not always remember to follow them. Additionally, not all assistors are comfortable with the new requirement. The IRS is reconsidering this requirement and plans to make changes during Fiscal Year 2011.

Auditors were not able to schedule appointments to visit the Taxpayer Assistance Centers

The IRS states that taxpayers can make appointments at a Taxpayer Assistance Center if the taxpayer has an ongoing, complex tax account problem or a special need, such as a disability. All other issues are to be handled without an appointment.

However, auditors attempted to schedule appointments at 23 Taxpayer Assistance Centers between October 2010 and January 2011. Auditors called the telephone numbers provided on IRS.gov and left messages, stating they had the following issues:

- 9 appointments were requested for a complex tax issue involving multiple tax years.
- 5 appointments were requested because the auditor stated he or she was physically disabled.

¹⁸ On December 17, 2011, the President signed the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010*.

¹⁹ For three visits, the auditors were turned away and asked to return another day.



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- 4 appointments were requested because he or she claimed to live 3 hours from the nearest Taxpayer Assistance Center.
- 5 appointments were requested because the auditor stated he or she had twin babies that made it difficult to wait.

Of the 23 calls to Taxpayer Assistance Centers to schedule appointments:

- 9 (39 percent) would not schedule appointments.
- 7 (30 percent) did not return the calls.
- 6 (26 percent) scheduled appointments.
- 1 (4 percent) left a message, but the auditor was unavailable.

The managers who returned the calls and would not schedule appointments stated, for example:

- There was only one assistor working at that particular Taxpayer Assistance Center. IRS procedures state that Taxpayer Assistance Centers with only one assistor are not required to make appointments unless a taxpayer has a disability.
- The Taxpayer Assistance Center is a walk-in office and they do not schedule appointments and/or an appointment was not necessary.
- The auditor could call the toll-free telephone line or come to the Taxpayer Assistance Center without an appointment.

Toll-free telephone assistance

As of March 5, 2011, approximately 39 million taxpayers contacted the IRS by calling the various Customer Account Services function²⁰ toll-free telephone assistance lines²¹ seeking help in understanding the tax law and meeting their tax obligations.²² The IRS planned to answer 7.4 million assistor calls (1.2 million fewer planned assistor calls during the 2011 Filing Season than the 8.6 million Assistor Calls Answered during the 2010 Filing Season) and planned to achieve a 70.9 percent Level of Service and 681 second (11.4 minutes) Average Speed of Answer. As of March 5, 2011, IRS assistors have answered 8.4 million calls and have achieved a 71.7 percent Level of Service and a 634 second (10.6 minutes) Average Speed of Answer.

²⁰ The Director, Customer Account Services, Wage and Investment Division, manages tax law and account telephone calls through the Joint Operations Center.

²¹ The IRS refers to the suite of 26 telephone lines to which taxpayers can make calls as “Customer Account Services Toll-Free.”

²² Toll-free telephone assistance data presented in this report were taken from available IRS reports through the week ending March 5, 2011, and comparable periods for prior years.



Interim Results of the 2011 Filing Season

Figure 9 presents a year-to-date comparison of select toll-free telephone system measures and service indicators.

Figure 9: Comparative Toll-Free Performance Measures and Service Indicators for the 2008-2011 Filing Seasons as of March 5, 2011²³

	2008	2009	2010	2011
Level of Service	79.5%	58.8%	73.9%	71.7%
Average Speed of Answer (seconds)	327	586	599	634
Automated Calls Answered (millions)	12.4	15.0	16.7	20.3
Customer Account Services Assistor Calls Answered (millions)	8.4	10.1	8.6	8.4
Customer Account Services Assistor Services Provided (millions)	9.9	11.6	10.2	10.1
Service Abandon Rate	16.5%	36.6%	21.0%	23.0%
Average Handle Time (seconds)	607	575	648	639
Assistor Availability	4.9%	4.7%	5.7%	6.3%
Primary Abandons ²⁴ (millions)	4.3	7.0	6.1	6.6
Secondary Abandons ²⁵ (millions)	1.8	3.4	2.6	2.7
Total Blocked Calls (millions)	0.5	3.9	0.7	0.8

Source: IRS Enterprise Telephone Data Warehouse.

The IRS expected to increase its telephone Level of Service goal to 75 percent based on an \$11.9 million program increase and a \$9 million reallocation from other IRS programs. However, the program increase and reallocation did not materialize since the IRS is currently operating under a continuing resolution. Thus, the 2011 Filing Season and Fiscal Year 2011 Level of Service goals are both 71 percent. The IRS has developed several plans with Level of Service goals ranging from 71 through 78 percent to try to surpass these 2011 goals.

²³ Data will not match the data in the prior issued Interim Filing Season audit reports because the IRS adjusts the data for comparable periods.

²⁴ A primary abandon occurs when a call is disconnected before reaching the queue.

²⁵ 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.



Interim Results of the 2011 Filing Season

Tax preparation assistance at Volunteer Program sites

The Volunteer Program plays an increasingly important role in the IRS's 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 training the volunteers received in preparation of the 2011 Filing Season. The scenarios require a determination of the Making Work Pay Credit, Retirement Savings Contribution Credit, Health Savings Account deduction, and Educator Expense. In addition, one scenario addresses Profit or Loss From Business (Schedule C) and self-employment tax.

As of March 5, 2011, we had 15 tax returns prepared with a 60 percent accuracy rate, which is lower than the 86 percent accuracy rate we reported during the same time period for the 2010 Filing Season. We will report our final results in August 2011. Figure 10 presents comparisons of Volunteer Program activities for the 2008 through 2011 Filing Seasons.

Figure 10: Year-to-Date Comparisons of the 2008–2011 Filing Seasons (in millions)²⁶

	2008 Actual	2009 Actual	2010 Actual	2011 Actual
Volunteer Return Preparation (in millions)	1.5	1.5	1.5	1.5
Volunteer <i>E-Filing</i>	96.8%	97.9%	98.5%	98.7%

Source: IRS 2008 through 2011 Filing Season Weekly Reports.

The IRS continues to use the Quality Statistical Sample cadre to measure the quality of tax returns prepared by the Volunteer Program. 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 results of all the return review visits are considered the formal measure of Volunteer Program-prepared

²⁶ The 2008 and 2009 Filing Seasons are weeks ending March 7, and the 2010 and 2011 Filing Seasons are weeks ending March 5.



Interim Results of the 2011 Filing Season

tax returns. For the 2010 Filing Season, the cadre reviews concluded that 85 percent of the tax returns prepared by volunteers were accurate.

Self-assistance through IRS.gov

As of March 5, 2011, the IRS had reported a 9.2 percent increase in the number of visits to IRS.gov over the same period in the prior filing season. It had also reported a 17.4 percent increase in the number of taxpayers obtaining their refund information online via the “Where’s My Refund” option found on IRS.gov. Figure 11 shows the year-to-date comparisons of various IRS.gov activity levels for the 2008 through 2011 Filing Seasons.

Figure 11: Year-to-Date Comparisons of the 2008–2011 Filing Seasons (in millions)²⁷

	2008 Actual	2009 Actual	2010 Actual	2011 Actual	% Change From 2010
IRS.gov Visits	90.7	116.8	109.7	119.8	9.2%
“Where’s My Refund?”	21.2	33.5	36.9	43.3	17.4%

Source: The IRS’s WebTrends database and IRS 2008–2011 Filing Season Weekly Reports. Totals may not compute to those presented due to rounding.

²⁷ The 2008 and 2009 Filing Seasons are through the weeks ending March 7, 2009; the 2010 and 2011 Filing Seasons are through the weeks ending March 5, 2011.



Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide selected information related to the IRS 2011 Filing Season¹ results as of March 4, 2011. To accomplish our objective, we:

- I. Identified new tax legislation for the 2011 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 2011 Filing Season by obtaining and reviewing the *Calendar Year Projections of Individual Returns by Major Processing Categories* (Document 6187), Fall 2010 Update, produced by the IRS Office of Research.
- III. Identified volumes of paper and *e-filed* returns received through March 5, 2011, 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 2010 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 Daily 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 Codes report to monitor reject volumes.
- V. Determined whether the IRS correctly implemented new tax legislation that affected the processing of individual tax returns during the 2011 Filing Season. We used computer analysis of 100 percent of the TY 2010 individual income tax returns processed nationally on the Individual Return Transaction File between January 1 and

¹ See Appendix VI for a glossary of terms.



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- March 4, 2011,² to identify returns affected by recent tax legislation and determined if they were processed correctly. We electronically identified:
- A. 275,313 individuals making installment payments on the First-Time Homebuyer Credit (Form 5405) through March 4, 2011, and 37,273 individuals claiming the First-Time Homebuyer Credit through March 4, 2011.
 - B. 9,859 individuals claiming an Adoption Credit on Qualified Adoption Expenses (Form 8839) through March 4, 2011.
 - C. 2,118,118 individuals claiming a Non-Business Energy Credit on the Residential Energy Credits (Form 5695).
 - D. 1,032 *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 4, 2011.
- 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 4, 2011, to identify the interim IRS fraudulent tax return statistics for the 2011 Filing Season.
 - B. Obtained the Questionable Refund Program Workload Comparison Summary Report for Processing Year 2010 and reviewed a prior TIGTA report³ to obtain IRS fraudulent tax return statistics and determine the number of erroneous refunds identified and stopped for Processing Years 2008 through 2010.
- 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 March 5, 2011.
 - C. Reviewed data from Field Assistance Office management information system.

² To assess the reliability of computer-processed data, programmers in the TIGTA Office of Information Services 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).



Interim Results of the 2011 Filing Season

- D. Visited 26 of 401 Taxpayer Assistance Centers to ask tax law questions. We judgmentally selected the Taxpayer Assistance Centers to ensure we equally represented all geographic locations and minimized travel costs.
 - E. Judgmentally selected 23 of 401 Taxpayer Assistance Centers to call and request an appointment at the Taxpayer Assistance Center.
- VIII. Identified interim results for the IRS Toll-Free Telephone Assistance Program by reviewing Performance Templates and Executive Level Summary reports from the Enterprise Telephone Data Warehouse for results as of March 5, 2011.
- IX. Identified interim results for the Volunteer Program by reviewing interim results from TIGTA visits to Volunteer Program sites. A total of 15 tax returns had been prepared as of March 5, 2011.⁴
- 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 2010 and 2011 Filing Seasons, through March 5, 2011.

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 2011 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 2011 Filing Season.

⁴ *Quality of Services at Volunteer Program Sites During the 2011 Filing Season - Followup* (Audit Number 201140006).



Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)

Augusta R. Cook, Director

Russell Martin, Director

Deann Baiza, Audit Manager

Lena Dietles, Audit Manager

Wilma Figueroa, Audit Manager

Ed Gorman, Audit Manager

Paula Johnson, Audit Manager

Tina Parmer, Audit Manager

Jean Bell, Senior Auditor

Sharon Buford, Senior Auditor

Gwendolyn Gilboy, Senior Auditor

Tracy K. Harper, Senior Auditor

Kathleen Hughes, Senior Auditor

Sharla Robinson, Senior Auditor

Geraldine Vaughn, Senior Auditor

Van Warmke, Senior Auditor

Lawrence White, Senior Auditor

Evan Close, Auditor

Denise Gladson, Auditor

Crystal Hamling, Auditor

Linna Hung, Auditor

Kim McMenamin, Auditor

Brian Hattery, Senior Information Technology Specialist

Martha Stewart, Senior Information Technology Specialist

Michele Cove, Information Technology Specialist



Interim Results of the 2011 Filing Season

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
Audit Liaison: Chief, Program Evaluation and Improvement, Wage and Investment Division
SE:W:S:PRA:PEI



Appendix IV

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

2011 Filing Season Implementation (Audit Number 201140029)

Audit Objective: Evaluate whether the IRS timely and accurately processes individual paper and *e-filed* tax returns during the 2011 Filing Season.

Processing Individual Income Tax Returns Transmitted Through the Modernized e-File System (Audit Number 201140030)

Audit Objective: Evaluate the continued implementation of the MeF system to determine if individual income tax returns will be accurately and timely processed and whether sufficient progress is being made to replace Legacy *e-file* for individual tax returns in Processing Year 2013.

Toll-Free Access During the 2011 Filing Season (Audit Number 201140002)

Audit Objective: Evaluate customer service toll-free telephone access during the 2011 Filing Season. We will also determine the effectiveness of the Toll-Free Customer Service surveys.¹

Taxpayer Experience – Followup (Audit Number 201140008)

Audit Objective: Determine the quality of customer service the IRS provides to taxpayers who seek assistance when filing their tax returns, for example assistance received from Taxpayer Assistance Centers, Toll-Free Telephone, Volunteer Programs, and IRS.gov.

Quality of Services at Volunteer Program Sites During the 2011 Filing Season – Followup (Audit Number 201140006)

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

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

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

¹ *Toll-Free Telephone Access Exceeded Expectations, but Access for Hearing- and Speech-Impaired Taxpayers Could Be Improved* (Reference Number 2010-40-108, dated September 8, 2010).



Appendix V

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

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 Credit

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 for 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 and Lifetime Learning Credits)

Form 8880 – Credit for Qualified Retirement Savings Contributions



Interim Results of the 2011 Filing Season

Form 8888 – Allocation of Refund (Including Savings Bond Purchases)

Form W-2 – Wage and Tax Statement



Appendix VI

Glossary of Terms

American Opportunity Tax Credit	A partially refundable Federal tax credit to help parents and college students offset the costs of college.
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 queue is backed 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 issuance of questionable refunds.
Electronic Return Originator	An Electronic Return Originator is the Authorized IRS e-file Provider that originates the electronic submission of a return to the IRS. The Electronic Return Originator is usually the first point of contact for most taxpayers filing a return using IRS e-file.
Enterprise Telephone Data Warehouse	The official source for all data related to toll-free telephone system measures and indicators.
Facilitated Self-Assistance	Facilitated Self-Assistance is an initiative to provide self-help assistance kiosks at Taxpayer Assistance Centers. The kiosks can be used by taxpayers to access IRS.gov to file their tax returns, print tax forms and publications, or conduct tax research.
Filing Season	The period from January 1 through April 15 when most individual income tax returns are filed.



Interim Results of the 2011 Filing Season

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.
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.
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.