



Office of Audit

**Treasury  
Inspector  
General for Tax  
Administration**



Recovery Act

## **INDIVIDUALS RECEIVED MILLIONS OF DOLLARS IN ERRONEOUS PLUG-IN ELECTRIC AND ALTERNATIVE MOTOR VEHICLE CREDITS**

Issued on January 21, 2011

# Highlights

Highlights of Report Number: 2011-41-011 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### **IMPACT ON TAXPAYERS**

The American Recovery and Reinvestment Act of 2009 (Recovery Act) included a number of provisions that encourage the purchase of motor vehicles that operate on clean renewable sources of energy. Individuals claimed more than \$163.9 million in plug-in electric and alternative motor vehicle credits from January 1 through July 24, 2010. Agencies are required to ensure Recovery Act funds are used for authorized purposes and appropriate measures are taken to prevent fraud, waste, and abuse.

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

This audit was initiated because TIGTA is required to monitor the Internal Revenue Service's (IRS) implementation of Recovery Act provisions. Our overall objective was to assess the effectiveness of IRS processes to identify and prevent erroneous claims for the Plug-in Electric Vehicle Credit and Alternative Motor Vehicle Credit for tax returns filed from January 1 through July 24, 2010.

### **WHAT TIGTA FOUND**

As of July 24, 2010, TIGTA identified 12,920 individuals who electronically filed their tax returns and erroneously claimed \$33 million in plug-in electric and alternative motor vehicle credits. In addition, 1,719 of the 12,920 individuals also erroneously reduced the amount of Alternative Minimum Tax owed by almost \$5.3 million. During this review, management took corrective actions to reduce erroneous claims when process weaknesses were brought to their attention. These actions have resulted in an estimated \$3.1 million in revenue protected. The erroneous claims TIGTA identified resulted from inadequate IRS processes to ensure information reported by individuals claiming plug-in electric and alternative motor vehicle credits met

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qualifying requirements for vehicle year, placed in-service date, and make and model.

In addition, TIGTA determined that the IRS is unable to track and account for plug-in electric and alternative motor vehicle credits claimed by individuals on paper-filed tax returns. Processes were not established to capture this information from paper-filed tax returns.

Also, our review of electronically filed tax returns identified individuals who erroneously claimed the same vehicle for multiple plug-in electric and alternative motor vehicle credits or claimed an excessive number of vehicles for personal use credits. Finally, TIGTA identified improper claims for the credits by prisoners and IRS employees. TIGTA has referred the information on the IRS employees to its Office of Investigations for further review.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the Commissioner, Wage and Investment Division, develop Error Resolution System procedures to not allow credits for vehicles with nonqualifying years, initiate actions to recover erroneous credits identified by TIGTA, and either develop a coding system to identify vehicle makes and models or require the Vehicle Identification Number on the forms used to claim plug-in electric and alternative motor vehicle credits.

In their response to the report, IRS management agreed with the recommendations and plans to update their procedures to require a review of the make, model, and date vehicles were placed in service to ensure taxpayers use qualifying vehicles to claim the plug-in electric and alternative motor vehicle credits. In addition, the IRS plans to add a new line on the forms used to claim the credits to require a Vehicle Identification Number. It also requested *e-file* software providers implement programming changes to allow taxpayers to select the make, model, and year of qualifying vehicles from a drop-down menu. The IRS plans to recover erroneous claims by reversing credits and conducting audits.

### **READ THE FULL REPORT**

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

<http://www.treas.gov/tigta/auditreports/2011reports/201141011fr.pdf>.

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