



Office of Audit

**Treasury
Inspector
General for Tax
Administration**



Recovery Act

ADMINISTRATION OF THE FIRST-TIME HOMEBUYER CREDIT INDICATES A NEED FOR IMPROVED CONTROLS OVER REFUNDABLE CREDITS

Issued on March 31, 2011

Highlights

Highlights of Report Number: 2011-41-035 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Homebuyers who purchased a home in 2008, 2009, or 2010 were able to take advantage of the First-Time Homebuyer Credit (Homebuyer Credit). The Homebuyer Credit allowed eligible taxpayers to claim up to an \$8,000 refundable credit on their tax return. Fraudulent and erroneous Homebuyer Credits totaling millions of dollars in refunds were issued, revealing a need for not only stronger controls over claims for the Homebuyer Credit, but also for strengthening controls over all refundable credits.

WHY TIGTA DID THE AUDIT

The President of the United States has called on Federal agencies to ensure that recovery funds are used for authorized purposes and that every step is taken to prevent fraud, waste, error, and abuse. The Internal Revenue Service (IRS) faces significant challenges to ensure that the recovery funds it administers are used for authorized purposes.

This report is the culmination of an audit that was reported in three separate phases as our audit progressed, resulting in two prior interim reports. The overall objective of the review was to determine whether the IRS had controls in place that effectively identified erroneous claims for the Homebuyer Credit.

WHAT TIGTA FOUND

The IRS has taken positive steps to strengthen controls and help prevent inappropriate Homebuyer Credits from being issued. Primary among these controls was the implementation of filters to identify questionable claims for the Credit before they are processed. Additionally, legislation granted the IRS math error authority to deny

Homebuyer Credits if proper documentation was not provided by the taxpayer.

However, the implementation of the filters and passage of this legislation occurred after many Homebuyer Credits had already been issued, including fraudulent and erroneous Credits totaling millions of dollars.

Control weaknesses identified in the two prior reports, as well as those identified in this report, allowed potentially erroneous refunds of more than \$513 million to be received by taxpayers who most likely did not qualify for the Homebuyer Credit. Furthermore, during this final phase of the audit, TIGTA identified additional IRS employees who made questionable claims for the Credit.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS require taxpayers to provide documentation to support eligibility for all refundable tax credits and to seek legislation that would provide the IRS with math error authority to deny refundable credits when supporting documentation is not provided.

To the extent feasible, the IRS should also ensure that the processing of refundable credits provided for in late legislation be initiated only after sufficient controls can be implemented to protect the Government from erroneous and fraudulent claims for these credits.

In addition, the IRS should take additional steps to recover erroneous credits discussed in this report, including claims for:

- Purchases from related persons.
- Invalid addresses.
- A taxpayer's previous address.
- Invalid acquisition dates.

IRS management partially agreed with one of our recommendations and agreed with the others. However, even though they agreed, TIGTA believes the IRS needs to take a much more timely and proactive approach to prevent fraudulent claims for refundable credits than they agreed to take in their response.

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/201141035fr.pdf>.

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