



**Treasury
Inspector
General for Tax
Administration**



Recovery Act

Office of Audit

PROCESSES WERE NOT ESTABLISHED TO VERIFY ELIGIBILITY FOR RESIDENTIAL ENERGY CREDITS

Issued on April 19, 2011

Highlights

Highlights of Report Number: 2011-41-038 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) modified the law related to energy credits to encourage the purchase of energy efficient property and renewable sources of energy for use in a home. The Internal Revenue Service (IRS) cannot verify whether individuals claiming Residential Energy Credits are entitled to them at the time their tax returns are processed. Inadequate verification increases the risk that taxpayers will be allowed to receive erroneous Residential Energy Credits.

WHY TIGTA DID THE AUDIT

This audit was initiated because TIGTA is required to monitor the IRS's implementation of Recovery Act provisions. More than 6.8 million individuals claimed more than \$5.8 billion in Residential Energy Credits on Tax Year 2009 tax returns processed through December 31, 2010. Our review assessed the effectiveness of the IRS's process to identify erroneous Residential Energy Credits.

WHAT TIGTA FOUND

The IRS cannot verify whether individuals claiming Residential Energy Credits are entitled to them at the time their tax returns are processed. The IRS does not require individuals to provide any third-party documentation supporting the purchase of qualifying home improvement products and/or costs associated with making energy efficiency improvements and whether these qualified purchases and/or improvements were made to their principal residence.

Based on our review of a statistically valid sample of 150 tax returns, TIGTA was unable to confirm home ownership for 45 (30 percent) of the taxpayers. Home ownership is required to claim Residential Energy Credits.

Finally, our review identified 362 ineligible individuals who were allowed to erroneously claim \$404,578 in Residential Energy Credits on their tax returns. These individuals were allowed to erroneously claim these Credits because the IRS did not develop a process to identify prisoners or individuals under the age needed to enter into a contract to purchase a residence. The IRS has data that could have been used to identify these erroneous deductions.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division:

- Revise the Residential Energy Credits (Form 5695) to request specific information supporting key eligibility requirements that could be used to verify requirements were met.
- Examine the tax returns of the 362 individuals TIGTA identified as being in prison or underage to ensure these individuals qualify for the Residential Energy Credits.
- Ensure processes are implemented to identify and review tax returns filed by prisoners or underage individuals to ensure they qualify for Residential Energy Credits claimed.

The IRS agreed with the first and third recommendations and plans to take corrective actions. The IRS partially agreed with the second recommendation. Specifically, the IRS agreed to review the returns of the 362 individuals identified as being in prison or underage and plans to audit those tax returns that warrant further examination.

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/201141038fr.pdf>

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