



Office of Audit

**Treasury
Inspector
General for Tax
Administration**



Recovery Act

CONTROL WEAKNESSES OVER AMENDED RETURNS ALLOWED SOME INAPPROPRIATE CLAIMS FOR THE FIRST-TIME HOMEBUYER CREDIT TO BE ALLOWED

Issued on June 24, 2011

Highlights

Highlights of Report Number: 2011-41-057 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 may be able to take advantage of the First-Time Homebuyer Credit (Homebuyer Credit). The Homebuyer Credit may be an interest-free loan or a fully refundable Credit depending on when the taxpayer purchased his or her home. Questionable Homebuyer Credits totaling millions of dollars in refunds as well as additional interest amounts were issued on amended claims.

WHY TIGTA DID THE AUDIT

The Homebuyer Credit as expressed in the Housing and Economic Recovery Act of 2008 has been revised and extended by three subsequent bills. Taxpayers may be confused regarding which version of the Homebuyer Credit they qualify for and specifics on how to claim the Credit. Also, unscrupulous individuals may make fraudulent claims for the refundable Homebuyer Credit.

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 recovery funds it administers are used for authorized purposes. This report contains the results of our audit to determine whether the IRS has controls in place to ensure that Homebuyer Credits claimed on Amended U.S. Individual Income Tax Returns (Forms 1040X) are appropriately processed.

WHAT TIGTA FOUND

The IRS has taken a number of positive steps to process Homebuyer Credits claimed on amended returns.

Primary among these was development of criteria to identify amended returns with questionable claims before they are processed. However, additional issues need to be addressed for claims of the Homebuyer Credit on amended returns.

Taxpayers inappropriately changed their home acquisition date to avoid repayment of their Homebuyer Credits. Some taxpayers received multiple refunds of the Homebuyer Credit. Many questionable claims for the Homebuyer Credit were not appropriately sent to the IRS's Examination function for scrutiny.

TIGTA also found that the IRS paid an estimated \$37 million in interest on claims for the time period prior to actual home purchase dates. It is unclear whether Congress intended for this interest to be paid. Finally, some claims for the Homebuyer Credit were significantly delayed.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS ensure that taxpayers changing the year of purchase or receiving more Homebuyer Credit than they are entitled to are identified and invalid claims are recovered through examinations. The IRS should also ensure that employees are provided proper training and perform quality reviews of Homebuyer Credit claims. The IRS should identify interest-related issues on any future legislation and work with the Department of the Treasury's Office of Tax Policy to request clarification from Congress if warranted. Further, the IRS should ensure that timeliness standards are adhered to when cases are referred to the Examination function.

IRS management agreed with our recommendations and has initiated appropriate corrective actions.

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/201141057fr.pdf>

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