



Office of Audit

**Treasury
Inspector
General for Tax
Administration**



Recovery Act

INDIVIDUALS WHO ARE NOT AUTHORIZED TO WORK IN THE UNITED STATES WERE PAID \$4.2 BILLION IN REFUNDABLE CREDITS

Highlights

Issued on July 7, 2011

Highlights of Report Number: 2011-41-061 to the Internal Revenue Service Commissioner for the Wage and Investment Division and the Chief of Criminal Investigation.

IMPACT ON TAXPAYERS

Many individuals who are not authorized to work in the United States, and thus not eligible to obtain a Social Security Number for employment, earn income in the United States. The Internal Revenue Service (IRS) provides such individuals with an Individual Taxpayer Identification Number (ITIN) to facilitate their filing of tax returns. Although the law prohibits aliens residing without authorization in the United States from receiving most Federal public benefits, an increasing number of these individuals are filing tax returns claiming the Additional Child Tax Credit (ACTC), a refundable tax credit intended for working families. The payment of Federal funds through this tax benefit appears to provide an additional incentive for aliens to enter, reside, and work in the United States without authorization, which contradicts Federal law and policy to remove such incentives.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether potentially fraudulent tax returns filed with ITINs were being properly and consistently worked. TIGTA revised the scope to address controls over claims for the ACTC by ITIN filers.

WHAT TIGTA FOUND

Claims for the ACTC by ITIN filers have increased from \$924 million in Processing Year 2005 (the calendar year in which the tax return was processed) to \$4.2 billion in Processing Year 2010. Legislation is needed to clarify whether or not refundable tax credits such as the ACTC may be paid to those who are not authorized to work in the United States.

The Examination function does not effectively and efficiently work ITIN cases. Additionally, employees in the Accounts Management Taxpayer Assurance Program are not taking steps to notify taxpayers when it is obvious their Social Security Numbers and names have been compromised.

TIGTA also found a problem with some tax preparation software programs. These programs automatically take the taxpayer identification number and enter it as the identifying number for the taxpayer's Wage and Tax Statements. This causes the Wage and Tax Statements to be inaccurate for most ITIN filers.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS work with the Department of the Treasury to seek clarification on whether or not refundable tax credits may be paid to individuals who are not authorized to work in the United States. TIGTA also recommended the IRS require individuals filing with ITINs and claiming the ACTC to provide specific verifiable documentation to support that their dependents meet the qualifications for the credit, including residency, and that questionable Child Tax Credits (CTC) and ACTC claims on ITIN returns are worked as effectively and efficiently as possible. The IRS should also ensure taxpayers are notified when their Social Security Numbers are compromised and ensure that software packages do not auto-populate an ITIN onto Wage and Tax Statements.

In their response to the report, IRS management agreed to discuss with the Department of the Treasury the issue of ITIN filers' eligibility for the ACTC. IRS officials did not agree to require additional documentation to support CTC and ACTC claims on ITIN returns, but did agree to work questionable CTC and ACTC claims as effectively and efficiently as possible. The IRS agreed with and is exploring options regarding alerting taxpayers whose Social Security Numbers have been compromised. IRS officials also plan to address tax preparation software packages that auto-populate an ITIN onto Wage and Tax Statements and will impose appropriate sanctions for noncompliance.

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/201141061fr.pdf>.

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