



**Treasury
Inspector
General for Tax
Administration**



Recovery Act

Office of Audit

FIRST-TIME HOMEBUYER CREDIT REPAYMENT NOTICES WERE INCORRECT, AND THE METHOD USED TO IDENTIFY DISPOSITIONS IS UNRELIABLE

Issued on September 15, 2011

Highlights

Highlights of Report Number: 2011-41-097 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Each of the laws which provide First-Time Homebuyer Credits (Homebuyer Credit) contains different Homebuyer Credit amounts, qualification requirements, and repayment requirements. Our review identified inaccuracies relating to the issuance of Homebuyer Credit repayment notices. In addition, the method used to identify individuals who may have disposed of their principal residence was not reliable.

WHY TIGTA DID THE AUDIT

TIGTA is required to monitor the Internal Revenue Service's (IRS) implementation of American Recovery and Reinvestment Act of 2009 provisions. The IRS reported a total of \$29.7 billion in Homebuyer Credit claims were made by more than 4 million individuals as of May 7, 2011. Our overall objective was to evaluate the effectiveness of IRS processes to ensure the accurate and timely repayment of the Homebuyer Credit including individuals who do not self-identify a disposition of their primary residence.

WHAT TIGTA FOUND

The IRS is continuing to take actions to develop and implement Homebuyer Credit repayment processes and procedures. However, despite these actions, our review identified notice programming errors which resulted in 13,327 individuals (including deceased individuals) who received or would have received incorrect notices, 18,220 individuals not receiving notices, and 29,880 individuals receiving incorrect notices because of incorrectly recorded home purchase dates. TIGTA also identified that the IRS's Recapture File sent to the third-party vendor for research to identify individuals who may have disposed of their principal residence did not include 31,062 individuals who received the Homebuyer Credit through February 2010.

In addition, our review found that the research methodology performed by the third-party vendor is incorrectly identifying current addresses. As a result, some individuals incorrectly received a Notice CP03c, which is sent to individuals when the IRS has information that there was a change to the individual's principal residence. For the 86,609 individuals who received a Notice CP03c, 53,558 (62 percent) received this notice because the third-party vendor incorrectly indicated the individual's address did not match the address in the IRS's Recapture File.

Finally, our review of the third-party vendor's research results for a statistically valid sample of 97 taxpayer accounts determined that for 40 (41 percent) of the taxpayer accounts, the information provided to the IRS had incomplete or inaccurate information.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, ensure Homebuyer Credit repayment notices are accurately issued, correct the purchase dates for the 2,535 tax accounts TIGTA identified as still having an incorrect purchase date recorded on the IRS's computer system, and discontinue using third-party vendor data to identify individuals who may have disposed of their principal residence unless the reliability can be significantly improved.

The IRS agreed with two of our three recommendations and plans to refer the 2,535 tax accounts to the Accounts Management function for analysis and necessary corrections, complete its evaluation of the use of third-party vendor data, and reevaluate the use of its own internal data. For the remaining recommendation, the IRS plans to replace the Notices CP03a and CP03b with a web-based tool that it plans to make available to taxpayers for the 2012 Filing Season.

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/201141097fr.pdf>.

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