



Office of Audit

**Treasury
Inspector
General for Tax
Administration**



Recovery Act

**THE INTERNAL REVENUE SERVICE
DISALLOWED ERRONEOUS FIRST-TIME
HOMEBUYER CREDITS TOTALING
\$1.6 BILLION; HOWEVER, ITS EXAMINATION
RESOURCES COULD HAVE BEEN USED MORE
EFFECTIVELY**

Issued on February 3, 2012

Highlights

Highlights of Report Number: 2012-41-013 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

IMPACT ON TAXPAYERS

Qualifying taxpayers who purchased a home in Calendar Year 2008, 2009, or 2010 were able to take advantage of the First-Time Homebuyer Credit (Homebuyer Credit), a refundable credit worth up to \$8,000. Through July 30, 2011, the IRS reported that it processed more than 4.3 million claims for the Homebuyer Credit totaling almost \$30.4 billion. During that same time, the IRS completed 495,592 Homebuyer Credit examinations, with 52,170 still to be closed. The purpose of these examinations is to ensure that only qualified taxpayers receive the Homebuyer Credit. Examining Homebuyer Credit claims that pose the greatest compliance risk is an effective use of limited IRS resources and avoids burdening compliant taxpayers with an examination.

WHY TIGTA DID THE AUDIT

This audit was initiated because a prior TIGTA audit estimated that IRS control weaknesses allowed taxpayers who most likely did not qualify for the Homebuyer Credit to receive potentially erroneous refunds of more than \$513 million. The overall objective of this review was to determine whether the IRS was adequately addressing questionable claims for the Homebuyer Credit.

WHAT TIGTA FOUND

The IRS developed a comprehensive strategy to address erroneous claims for the Homebuyer Credit. While it properly evaluated the questionable claims that were selected for examination, a large number of high-risk claims were not examined, and many of the

examinations conducted were unproductive. More specifically, some of the high-risk claims were never run through the automated filters designed to select claims for examination. In addition, the IRS methods for determining the highest risk claims were flawed.

TIGTA also identified an instance where the IRS exceeded its legal authority in denying Homebuyer Credits to some taxpayers under 18 years of age.

WHAT TIGTA RECOMMENDED

During the course of the audit, TIGTA made recommendations that resulted in immediate IRS corrective actions. IRS management modified their methods of determining high-risk claims and shifted examination resources to more productive cases. They also agreed to use a method other than post-processing math error authority to address claims filed by under-age taxpayers.

In addition, TIGTA recommended that the IRS 1) use updated examination results to make adjustments throughout the year, which will optimize the overall examination results, and 2) ensure that all claims for the Homebuyer Credit are run against IRS automated examination filters and that the highest risk cases are selected for post-refund examinations.

The IRS agreed with our recommendations. In its response to the first recommendation, the IRS stated it routinely uses prior examination results to adjust its workloads. Nonetheless, TIGTA found that the IRS did not do this consistently in the case of Homebuyer Credit examinations.

The IRS disagreed with one of the outcome measures discussed in this report. However, TIGTA believes that the IRS did not consider pertinent data regarding its high percentage of no-change cases for pre-refund Homebuyer Credit examinations.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2012reports/201241013fr.pdf>

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