
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Interim Results of the 2013 Filing Season

March 29, 2013

Reference Number: 2013-40-035

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

1 = Tax Return/Return Information

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HIGHLIGHTS

INTERIM RESULTS OF THE 2013 FILING SEASON

Highlights

Final Report issued on March 29, 2013

Highlights of Reference Number: 2013-40-035 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The filing season, defined as the period from January 1 through mid-April, is critical for the IRS because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures.

WHY TIGTA DID THE AUDIT

Enactment of the American Taxpayer Relief Act of 2012 on January 2, 2013, significantly reduced the time the IRS had to implement the tax changes it contained. In addition, the IRS fully migrated the electronic filing of individual tax returns to the Modernized e-File system for the 2013 Filing Season. The objective of this review was to provide selected information related to the IRS's 2013 Filing Season. TIGTA plans to issue the final results of our analysis of the 2013 Filing Season in September 2013.

WHAT TIGTA FOUND

The IRS delayed the start of the filing season from January 22, 2013, to January 30, 2013, as a result of the enactment of the American Taxpayer Relief Act of 2012. Most taxpayers were able to file their tax return starting on January 30, 2013. However, some taxpayers had to wait to file their tax return until early March 2013. The IRS began accepting all individual tax returns on March 4, 2013.

As of March 9, 2013, the IRS received more than 65.1 million tax returns—more than 59.5 million (91 percent) were filed electronically and more than 5.6 million (9 percent) were filed on paper. The IRS has issued more than 53.4 million refunds totaling more than \$154 billion.

The IRS is continuing to expand its efforts to detect tax refund fraud. As of March 9, 2013, the IRS reports that it identified 220,821 tax returns with \$1.86 billion claimed in fraudulent refunds and prevented the issuance of \$1.79 billion (96.2 percent) of the fraudulent refunds. In addition, the IRS identified and confirmed 85,385 fraudulent tax returns involving identity theft and identified another 87,817 prisoner tax returns for screening.

Taxpayers and tax return preparers may use the split deposit option to deposit a refund into a taxpayer's bank account. However, taxpayers and tax return preparers may be misusing this option. TIGTA also found that some paid tax return preparers continue to be noncompliant with Earned Income Tax Credit due diligence requirements. The IRS also continues to issue potentially erroneous Education Credits for individuals who are not of a traditional age to be pursuing a four-year degree or vocational program.

During Fiscal Year 2013, the IRS plans to assist six million taxpayers through face-to-face contact at the Taxpayer Assistance Centers, which will be 11.8 percent fewer taxpayers than were assisted during Fiscal Year 2012. As of March 9, 2013, approximately 56.5 million taxpayers contacted the IRS by calling the various Customer Account Services function toll-free telephone assistance lines. The IRS is also continuing to expand its online and social media presence and now has a mobile application (IRS2Go); YouTube channels; and Twitter, Tumblr, and Facebook accounts.

WHAT TIGTA RECOMMENDED

This report was prepared to provide interim information only. Therefore, no recommendations were made in the report.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 29, 2013

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: 
(for) Michael E. McKenney
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Interim Results of the 2013 Filing Season
(Audit # 201340009)

This report presents selected information related to the Internal Revenue Service's (IRS) 2013 Filing Season results. As part of our Fiscal Year 2013 Annual Audit Plan, we are conducting several ongoing audits that are related to specific issues in this report. This review addresses the major management challenge of Implementing the Affordable Care Act and Other Tax Law Changes. We will continue to provide IRS management with information on any areas of immediate concern throughout our audit process.

This report was prepared to provide interim information only. Therefore, we made no recommendations in the report. However, we provided IRS management officials with an advance copy of this report for review and comment prior to issuance.

Copies of this report are also being sent to the IRS managers affected by the report information. If you have any questions, please contact me or Russell P. Martin, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).



Interim Results of the 2013 Filing Season

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Interim Results of the 2013 Filing Season

Abbreviations

CADE 2	Customer Account Data Engine 2
EFDS	Electronic Fraud Detection System
e-file(d), e-filing	Electronically file(d); electronic filing
EITC	Earned Income Tax Credit
IRS	Internal Revenue Service
MeF	Modernized e-File
TIGTA	Treasury Inspector General for Tax Administration



Interim Results of the 2013 Filing Season

Background

The annual tax return filing season¹ is a critical period for the Internal Revenue Service (IRS) because it is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. During Calendar Year 2013, the IRS expects to receive 148.5 million individual income tax returns. The IRS estimates that it will process approximately 28.4 million paper filed and 120.1 million electronically filed (e-filed) tax returns. In addition, the IRS expects to provide customer service assistance via telephone, website, social media, and face-to-face assistance to millions of taxpayers. The IRS is processing individual income tax returns at five Wage and Investment Division Submission Processing sites during the 2013 Filing Season: Fresno, California; Andover, Massachusetts; Kansas City, Missouri; Philadelphia, Pennsylvania; and Austin, Texas.

***The IRS expects to receive
148.5 million individual
income tax returns during
Calendar Year 2013.***

One of the challenges the IRS confronts each year in processing tax returns is the implementation of new tax law changes. Before the filing season begins, the IRS must identify new tax law and administrative changes and revise the various tax forms, instructions, and publications. It must also reprogram its computer systems to ensure that tax returns are accurately processed. Problems with tax return processing could delay tax refunds, affect the accuracy of tax accounts, and result in the generation of incorrect notices.

Tax law changes affecting the 2013 Filing Season

- ***American Taxpayer Relief Act of 2012***² – Enacted January 2, 2013, this act increased the Alternative Minimum Tax exemption and allowed nonrefundable credits up to the full amount of the Alternative Minimum Tax. It also permanently indexes the Alternative Minimum Tax exemption for inflation and extended many tax credits and deductions that expired on December 31, 2011, including the:
 - Deduction for certain expenses incurred by eligible primary and secondary educators.
 - Deduction for qualified tuition and related expenses.
 - Itemized deduction for State and local general sales taxes.
 - Itemized deduction for mortgage insurance premiums.

¹ See Appendix IV for a glossary of terms.

² Pub. L. No. 112-240, 126 Stat. 2313 (2013).



Interim Results of the 2013 Filing Season

- Tax exclusion of individual retirement account distributions used for charitable purposes.
- Residential energy credits for individuals.
- **Budget Control Act of 2011**³ – Enacted August 2, 2011, it required Federal agencies to implement mandatory budget cuts if Congress did not enact a Fiscal Year 2013 budget by March 1, 2013. On March 5, 2013, the IRS announced that it would have to make significant cuts in all major program areas, including customer service, for the remainder of Fiscal Year 2013 to implement the budget cuts required by the sequester. However, the Acting Commissioner stated that employee furloughs would be postponed until after the completion of the filing season.

The 2013 Filing Season marks the first filing season in which the Modernized e-File (MeF) system will be the only system to receive and process individual e-filed tax returns. The MeF system is a modernized, Internet-based e-file platform that provides real-time processing of tax returns which improves error detection, standardizes business rules, and expedites return receipt acknowledgments. The MeF system replaces the IRS's prior e-filing system (referred to as the Legacy e-File system). The IRS first began accepting individual tax returns through the MeF system in February 2010. In addition, the IRS continues to process tax returns for posting using its Customer Account Data Engine 2 (CADE 2) system. The IRS first began processing tax returns via CADE 2 for the 2012 Filing Season. This represents a new way of posting taxpayer data to the Individual Master File (Master File). The CADE 2 system provides the IRS with the ability to post tax data to the Master File daily. Certain transactions that may require additional review are identified upfront and are still only posted once per week. The ability to post information to the Master File on a daily basis enables the IRS to provide tax refunds to taxpayers more quickly.

The interim 2013 Filing Season results are being presented as of several dates, depending on when data were available, that include February 28, March 7, March 9, or March 11, 2013. Later this year, we will issue our 2013 Filing Season report. This review was performed at the Wage and Investment Division Headquarters in Atlanta, Georgia; the Submission Processing function offices in Cincinnati, Ohio; the Information Technology organization Headquarters in Lanham, Maryland; and the Kansas City, Missouri, Submission Processing Site. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

³ Pub. L. No. 112-25, 125 Stat. 240 (2011).



Results of Review

Processing Tax Returns

The IRS originally planned to begin processing individual tax returns on January 22, 2013. However, on January 8, 2013, the IRS announced that it was delaying the start of the filing season to make the changes necessary to implement provisions of the American Taxpayer Relief Act of 2012.⁴ This delay was needed to ensure that tax returns are processed correctly. According to the IRS, most taxpayers would be able to file their tax returns beginning January 30, 2013, only one week later than originally planned. However, the IRS stated that several tax forms required more extensive programming changes. Taxpayers filing with these forms were advised that they would be unable to file their tax return until late February or March 2013. According to the IRS, taxpayers claiming credits relating to these forms generally do not file until later in the filing season, minimizing the impact of the delay for these taxpayers. We estimate the delay in processing these tax forms could have affected more than 19 million taxpayers. The forms requiring more extensive programming included:

- Form 5695, *Residential Energy Credits*.
- Form 4562, *Depreciation and Amortization (Including Information on Listed Property)*.
- Form 3800, *General Business Credit*.

In addition, on January 28, 2013, the IRS announced that taxpayers filing tax returns that included a Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits)*, would be unable to file their tax return until mid-February.⁵ The IRS identified problems during filing season computer program testing with this form, and the delay was needed to fix the programming errors in its processing system.

The IRS began processing all individual tax returns on March 4, 2013.⁶ As of March 9, 2013, the IRS received 65.2 million tax returns. Taxpayers are e-filing a higher proportion of tax returns than in the 2012 Filing Season. Figure 1 presents comparative filing season statistics as of March 9, 2013.

⁴ IRS News Release IR-2013-2, *IRS Plans Jan. 30 Tax Season Opening for 1040 Filers* (Jan. 2013).

⁵ IRS News Release IR-2013-10, *IRS to Accept Returns Claiming Education Credits by Mid-February* (Jan. 2013).

⁶ IRS News Release IR-2013-25, *IRS Now Accepting All 2012 Returns* (Mar. 2013).



Interim Results of the 2013 Filing Season

**Figure 1: Comparative Filing Season Statistics
as of March 9, 2013⁷**

Cumulative Filing Season Data	2012 Actual	2013 Actual
Individual Income Tax Returns		
Total Returns Received (000s)	71,568	65,156
Paper Returns Received (000s)	7,500	5,655
E-Filed Returns Received (000s)	64,068	59,501
Practitioner Prepared (000s)	38,189	34,099
Home Computer (000s)	25,879	25,402
Percent of Home Computer Returns	40.4%	42.7%
Free File (000s) (also in the Home Computer total) ⁸	1,888	–
Fillable Forms (000s) (also in the Home Computer total)	–	–
Percent of Returns E-Filed	89.5%	91.3%
Refunds		
Total Number Issued (000s)	59,239	53,447
Total \$ (in millions)	\$174,403	\$154,696
Average \$	\$2,944	\$2,894
Total Number of Direct Deposits (000s)	51,392	47,177
Total Direct Deposit \$ (in millions)	\$158,618	\$142,861

Source: IRS 2013 Weekly Filing Season reports. Totals and percentages shown are rounded.

Error in tax preparation software packages causes further delays for individuals claiming the American Opportunity Tax Credit

On March 12, 2013, the IRS announced that an error in a limited number of software company products has resulted in further processing delays for some taxpayers who filed tax returns with a Form 8863 between February 14, 2013, and February 22, 2013. The IRS indicated that the error

⁷ When comparing filing season statistics throughout the report, it should be noted that the delay in processing some tax returns affects the number of tax returns the IRS has received and processed to date.

⁸ As of the date of this report, the IRS was unable to provide statistics on taxpayers' use of Free File and the use of fillable forms.



Interim Results of the 2013 Filing Season

affects approximately 10 percent of the total tax returns claiming the American Opportunity Tax Credit during this period.

IRS management informed us that beginning with the 2013 Filing Season, the IRS is requiring software companies to transmit a “yes” or “no” to specific questions on the Form 8863 related to the American Opportunity Tax Credit. These questions relate to specific requirements that need to be met to qualify for the Credit. However, a limited number of software companies incorrectly programmed the form to replace taxpayers’ “no” answers with a blank when transmitting the tax returns to the IRS. As a result, these tax returns were identified by the IRS’s error processes as having an incomplete Form 8863 (IRS programming requires either a yes or no, the field cannot be blank). The IRS suspended the processing of these tax returns while it corresponds with the taxpayer to obtain the missing information. According to the IRS, the time period for taxpayer response and correcting the missing information can take up to eight weeks. On March 26, 2013, the IRS announced that due to the steps it took to help these taxpayers, it has been able to resolve these cases more quickly than anticipated – in two-to-four weeks.

The MeF system is used to process e-file tax returns

The 2013 Filing Season marks the first time the IRS will accept and process all e-filed tax returns using the MeF system. The IRS is monitoring the performance of the MeF system and making adjustments as needed to ensure that the system is processing tax returns efficiently. IRS management confirmed that the MeF system is currently accepting tax returns, providing tax return acknowledgements, and updating downstream processing databases as intended.

As of March 9, 2013, the IRS received 62.1 million tax returns through the MeF system. Figure 2 presents a comparison of the number of tax returns processed through the MeF system for Processing Years 2012 and 2013 as of March 9, 2013.

**Figure 2: Comparison of MeF System Tax Return Volumes
(as of March 9, 2013)**

Number of Returns Processed	2012	2013
Total Number Received (in thousands)	75,133	62,143
Number Accepted (in thousands)	65,906	54,464
Number Rejected (in thousands)	9,227	7,679

Source: IRS 2013 Filing Season reports as of March 9, 2013. Totals shown are rounded.

We plan to continue our evaluation of the IRS’s implementation of the MeF system, and we will issue a separate audit report on these results. We expect to issue that report in August 2013.



Interim Results of the 2013 Filing Season

The IRS continues to post tax returns daily through the CADE 2 system

The IRS is continuing to process tax returns using its CADE 2 system. The IRS first began processing tax returns via the CADE 2 for the 2012 Filing Season. In addition to expanding the daily processing of individual tax returns, the CADE 2 will result in a single relational database that houses all individual taxpayer accounts. This database will replace the Master File and serve as a central source of individual tax return data, making reporting and retrieval of taxpayer account data faster and more efficient. In July 2012, we reported that the IRS's planning for the implementation of daily processing was sufficient to ensure tax account transactions are processed to the Master File on a daily basis.⁹ In addition, we determined that transactions were posting correctly to the Master File.

The next phase of the IRS's implementation of the CADE 2 is the use of the relational CADE 2 database to house all individual tax accounts. The IRS is currently using the CADE 2 database as the source for some information within other IRS systems. However, the Master File continues to be the official repository of individual tax accounts for the 2013 Filing Season.

The savings bond and split refund options continue to be used frequently, but some taxpayers may be misusing the split refund option

Through March 7, 2013, a total of 21,859 individuals requested to convert tax refunds totaling more than \$7.8 million into savings bonds. In addition, 527,872 individuals chose to split tax refunds totaling more than \$2.3 billion between two or three different checking and savings accounts. Figure 3 shows a comparison of taxpayers' use of the split refund and savings bond options for Processing Years 2012 and 2013 as of March 7, 2013.

⁹ Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2012-40-085, *The Internal Revenue Service Is Making Progress Toward Implementing Daily Processing of Individual Tax Returns* (July 2012).



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**Figure 3: Use of Savings Bonds and Split Refunds
for Processing Years 2012 and 2013
(as of March 7, 2013)**

Savings Bonds	2012 Actual	2013 Actual
Total Returns	26,238	21,859
Total Refunds to Bonds \$ (in thousands)	\$8,800	\$7,900
Split Refunds		
Total Returns	662,983	527,872
Total Refunds Split \$ (in thousands)	\$2,900,000	\$2,350,000

Source: IRS 2013 Weekly Filing Season reports as of March 7, 2013. Totals shown are rounded.

However, our preliminary analysis of Form 8888, *Allocation of Refund (Including Savings Bond Purchases)*, raises concerns about the potential misuse of the split refund option to direct multiple tax refunds to one bank account. We identified 288,187 tax returns with a Form 8888 requesting direct deposits totaling more than \$113 million into 31,934 bank accounts as of March 7, 2013. Each of the 31,934 bank accounts we identified has had three or more Form 8888 deposits from different taxpayers into these accounts during this filing season. We determined that 175,948 (61 percent) of the 288,187 tax returns were prepared by paid tax return preparers.

Form 8888 instructions state that the form is to be used only for the deposit of a tax refund to an account in the taxpayer's name. Taxpayers are not to use Form 8888 to direct a portion of a tax refund to the tax return preparer for payment of services rendered or any other purpose. Despite this, 5,114 of the 31,934 bank accounts listed on the Forms 8888 were associated with 4,817 paid tax return preparers.

We notified the IRS of our concerns on February 8, 2013. IRS management agreed that multiple Form 8888 direct deposits from different taxpayers were being made to the same bank accounts. The IRS indicated it will review tax return preparer data and will take necessary enforcement actions. We will continue to monitor split refunds throughout the remainder of the filing season to identify potential noncompliance with the use of these types of tax refund deposits.

Ensuring accuracy of tax returns during processing

The delay in processing tax returns delayed our assessment of the IRS's accuracy of processing tax returns involving those credits that were extended as a result of the American Taxpayer Relief Act of 2012 as well as the programming relating to those forms that required redesign.



Interim Results of the 2013 Filing Season

We will provide the results of this assessment in our 2013 Filing Season report that will be issued later this year.

As part of our review, we are also evaluating the effectiveness of the IRS's actions to address errors we identified in our 2012 Filing Season review.¹⁰ Our preliminary review indicates some paid tax return preparers continue to be noncompliant with the Earned Income Tax Credit (EITC) due diligence requirements, and the IRS is continuing to issue potentially erroneous Education Credits.

- **Many paid tax return preparers continue to be noncompliant with the Form 8867, Paid Preparer's Earned Income Checklist, requirements** – Tax return preparer due diligence requirements were put in place for the 2012 Filing Season in an attempt to promote the accurate filing of EITC claims. Currently, the IRS estimates between \$11.6 billion and \$13.6 billion in EITC claims are paid in error. Paid tax return preparers are required to attach a Form 8867 to each tax return they file with an EITC claim. Tax return preparers may be assessed a \$500 penalty for each tax return filed with a missing Form 8867. As of March 7, 2013, we identified 80,585 paid tax return preparers filing 612,622 tax returns claiming nearly \$1.9 billion in EITC without the required Form 8867 attached to the tax return. This equates to more than \$306 million in penalties that can be assessed by the IRS. The IRS indicated that it is accumulating information that identifies tax returns filed without a Form 8867 throughout the filing season and will assess EITC penalties against paid tax return preparers at the completion of the filing season.
- **The IRS is continuing to issue potentially erroneous Education Credits** – Taxpayers can receive the American Opportunity Tax Credit for the first four years of post-secondary education, including graduate studies or vocational certification. Taxpayers can receive a credit of up to \$2,500 per student for qualified higher education expenses. The first 40 percent of the credit (\$1,000) is fully refundable. In our 2012 Filing Season report, we identified 109,618 taxpayers as of May 2, 2012, who received refundable American Opportunity Tax Credits for Tax Year 2011 totaling more than \$159 million for students who were of an age that are unlikely to be enrolled in a four-year college degree program.

As of March 7, 2013, we identified 10,659 taxpayers who filed tax returns claiming Education Credits¹¹ totaling \$20.6 million for individuals younger than 14 and 7,402 taxpayers claiming credits totaling \$9.4 million for individuals older than 65. Although the law does not limit the American Opportunity Tax Credit to individuals of specific ages, we believe these individuals are unlikely to be pursuing a four-year degree or vocational certification.

¹⁰ TIGTA, Ref. No. 2012-40-119, *The Majority of Individual Tax Returns Were Processed Timely, but Not All Tax Credits Were Processed Correctly During the 2012 Filing Season* (Sept. 2012).

¹¹ Education Credits include the American Opportunity Tax Credit and the Lifetime Learning Tax Credit.



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In addition, in our 2012 Filing Season report, we identified that the IRS was not accurately processing First-Time Homebuyer Credit (Homebuyer Credit) repayments and dispositions. Taxpayers who received the Homebuyer Credit for a home purchased prior to Calendar Year 2009 are required to repay the credit annually over 15 years. Any taxpayer who disposes of a home within three years of receiving the credit for its purchase must repay the full amount of the credit in the year the home was disposed. We are in the process of reviewing tax return data to determine if the IRS has improved its processing of these payments. As of March 7, 2013, we identified a total of 392,803 taxpayers reporting \$125.3 million in Homebuyer Credit repayments for credits received prior to January 1, 2009. An additional 11,208 taxpayers reported \$3.4 million in repayments associated with the disposition of a home for which the credit was received. We will provide the results of this assessment in our 2013 Filing Season report that will be issued later this year.

Detecting and Preventing Tax Refund Fraud

As of March 9, 2013, the IRS reported that it identified 220,821 tax returns with \$1.86 billion¹² claimed in fraudulent refunds and prevented the issuance of \$1.79 billion (96.2 percent) of those refunds.¹³ Figure 4 shows the number of fraudulent tax returns identified by the IRS, including prisoner and identity theft tax returns, for Processing Years 2010 through 2012 as well as the refund amounts that were claimed and stopped.

Figure 4: Fraudulent Returns and Refunds Identified and Stopped in Processing Years 2010 Through 2012

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refunds Identified	Amount of Fraudulent Refunds Stopped
2010	971,511	881,303	\$7,300,996,194	\$6,931,931,314
2011	2,176,657	1,756,242	\$16,186,395,218	\$14,353,795,007
2012	3,422,505	3,110,788	\$20,721,203,369	\$19,247,812,922

Source: IRS fraudulent tax return statistics for Processing Years 2010 through 2012.

¹² The IRS indicated that of the \$1.86 billion claimed and \$1.79 billion stopped in fraudulent refunds, ***1*****
*****1*****.

¹³ The delay in processing some tax returns has contributed to the decrease in the number of fraudulent tax returns the IRS has identified as of this date.



Detection of tax returns involving identity theft

The IRS continues to expand identity theft filters to identify fraudulent tax returns at the time they are processed. In the 2012 Filing Season, the IRS created identity theft filters to identify potentially fraudulent tax returns and prevent the issuance of fraudulent tax refunds. The identity theft filters incorporate criteria based on characteristics of confirmed identity theft tax returns. These characteristics include amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, filing history, *etc.*

Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. The IRS attempts to contact the individual who filed the tax return, and if this individual's identity cannot be confirmed, the IRS removes the tax return from processing. This prevents the issuance of many fraudulent tax refunds. As of February 28, 2013, the IRS reported that it identified and confirmed 85,385 fraudulent tax returns and prevented the issuance of \$489 million in fraudulent tax refunds as a result of the identity theft filters.

Figure 5 shows the number of identity theft tax returns the IRS identified and confirmed as fraudulent in Processing Years 2011 through 2013.

Figure 5: Identity Theft Tax Returns Confirmed as Fraudulent in Processing Years 2011 Through 2013 (as of February 28, 2013)

Processing Year	Number of Identity Theft Returns
2011	175,218
2012	185,657
2013	85,385

Source: IRS fraudulent tax return statistics for Processing Years 2011 through 2013 as of February 28, 2013.

We are currently conducting a review of the IRS's efforts to detect and prevent identity theft. We are also conducting a separate review of the IRS's efforts to assist victims of identity theft. We will issue these reports later this fiscal year.

Screening of prisoner tax returns

As of March 9, 2013, the IRS reports that it identified 87,817 potentially fraudulent tax returns filed by prisoners for screening. Figure 6 shows the number of prisoner tax returns identified for screening in Processing Years 2011 through 2013.



Figure 6: Prisoner Tax Returns Identified for Screening in Processing Years 2011 Through 2013 (as of March 9, 2013)

Processing Year	Number of Prisoner Tax Returns Identified for Screening
2011	111,698
2012	144,848
2013	87,817

Source: IRS fraudulent tax return statistics for Processing Years 2011 through 2013 as of March 9, 2013.

We plan to conduct a separate review of the IRS’s efforts to improve the detection and prevention of prisoner tax fraud later this fiscal year.

Electronic Fraud Detection System (EFDS) programming errors resulted in some tax returns not being screened for fraud

In a separate review of the IRS’s wage and withholding verification process, we identified 320 Tax Year 2010 tax returns that did not receive an EFDS score.¹⁴ We brought this to management’s attention, and the IRS determined that errors in the processes it used to load tax return data into the EFDS were resulting in some tax returns not receiving an EFDS fraud score. The IRS issued a system alert on March 1, 2013, indicating that 332,835 Tax Year 2012 paper tax returns also had not received an EFDS score. IRS management indicated that programming changes were made at the beginning of the 2013 Filing Season that eliminated the risk of these errors occurring on e-filed tax returns. However, the IRS needs additional time to correct programming errors affecting paper tax returns. IRS management stated that they are in the process of updating the computer programming and have established interim procedures to ensure that all tax returns will be evaluated by the EFDS. The IRS estimates that the programming errors affecting paper tax returns will be corrected by the end of March 2013.

Individual tax returns are sent through the IRS’s EFDS and receive a data-mining score based on the characteristics of the tax return and other data. For those tax returns meeting a certain score, the tax return is sent to an IRS tax examiner to screen the tax return for fraud potential. For those tax returns identified as not being scored within the EFDS, the tax return will not be sent to screening for fraud potential regardless of whether the tax return may include questionable characteristics.

¹⁴ TIGTA, Audit No. 201240021, *Wage and Withholding Verification for Individual Tax Returns* (ongoing audit).



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If a tax return is selected for further verification, the tax refund is held until employers or third parties are contacted to verify wage information on the tax return. If the verification process is not completed within a certain time period, the tax refund is automatically released. The IRS monitors these tax returns and extends the hold on the tax refund to prevent the automatic release of the refund if additional time is needed to verify the refund. In general, if the employee concludes that a tax return contains false information, *e.g.*, false or inflated wages, the tax return is either resolved in the Accounts Management function or referred for deficiency processing. Tax returns with refundable credits, such as the EITC, and tax returns for which the refunds were issued must be referred for deficiency processing because the law requires the IRS to follow deficiency procedures before making an assessment in these cases.

Providing Customer Service

Taxpayers have several options to choose from when they need assistance from the IRS, including telephone assistance through the toll-free telephone lines, face-to-face assistance at the Taxpayer Assistance Centers and/or Volunteer Program sites, and self-assistance through IRS.gov and social media channels.

Face-to-face assistance at the Taxpayer Assistance Centers¹⁵

The IRS plans to assist six million taxpayers during Fiscal Year 2013, which will be 11.8 percent fewer taxpayers than were assisted in Fiscal Year 2012. The Fiscal Year 2013 plan was based on the assumption of limited seasonal staff support and the continuing reduction of permanent staff as a result of the hiring freeze and buy-out authority. Figure 7 shows the number of contacts by product line at the Taxpayer Assistance Centers for Fiscal Years 2010 through 2013.

¹⁵ The Taxpayer Assistance Centers are walk-in sites where taxpayers can obtain answers to both account and tax law questions, as well as receive assistance in preparing their tax returns.



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Figure 7: Contacts for Fiscal Years 2010 Through 2013 (in millions)

Contacts/Product Lines	Fiscal Year			
	2010	2011	2012	2013 Projections
Tax Accounts Contacts	3.5	3.7	4.3	3.8
Forms Contacts	0.7	0.6	0.6	0.5
Other Contacts ¹⁶	1.5	1.5	1.7	1.5
Tax Law Contacts	0.3	0.3	0.2	0.2
Tax Returns Prepared ¹⁷	0.4	0.3	N/A	N/A
Totals	6.4	6.4	6.8	6.0

Source: IRS management information reports.

Toll-free telephone assistance

As of March 9, 2013, approximately 56.5 million taxpayers contacted the IRS by calling the various customer service toll-free telephone assistance lines seeking help in understanding the tax law and meeting their tax obligations.¹⁸ IRS assistors have answered 8.3 million calls and have achieved a 67.8 percent Level of Service¹⁹ with a 14.2 minute Average Speed of Answer. The Level of Service for Fiscal Year 2012 was 66.8 percent. The IRS forecasted a 70.0 percent Level of Service for Fiscal Year 2013. This decrease affects customers by having longer wait times, increased abandons, and an increased number of customers redialing the IRS toll-free lines for service. Figure 8 shows a comparison of IRS toll-free telephone statistics through March 9, 2013, for Fiscal Years 2010 through 2013.

¹⁶ Other Contacts includes Form 2063, *U.S. Departing Alien Income Tax Statement*, date-stamping tax returns brought in by taxpayers, screening taxpayers for eligibility of service, scheduling appointments, and helping taxpayers with general information such as addresses and directions to other IRS offices or other Federal Government agencies.

¹⁷ In Fiscal Years 2012 and 2013, Tax Returns Prepared is included in Other Contacts.

¹⁸ The IRS refers to the suite of 29 telephone lines to which taxpayers can make calls as “Customer Account Services Toll-Free.”

¹⁹ The IRS’s Level of Service measure only reflects the relative success rate of taxpayers who call the IRS’s 29 toll-free telephone lines seeking assistance from an assistor. It can be managed by increasing or decreasing the number of blocked calls, thus allowing more or fewer callers into the queue. We previously reported this performance measure does not accurately reflect total call demand and the taxpayer experience (TIGTA, Ref. No. 2009-40-127, *Higher Than Planned Call Demand Reduced Toll-Free Telephone Access for the 2009 Filing Season* (Sept. 2009)).



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Figure 8: Toll-Free Telephone Statistics for Fiscal Years 2010 Through 2013 as of March 9, 2013

Statistic	Fiscal Year			
	2010	2011	2012	2013
Calls Answered	9,641,999	9,560,407	8,252,582	8,269,656
Level of Service	74.2%	72.6%	66.8%	67.8%
Average Speed of Answer	594	618	956	852

Source: IRS management information reports as of March 9, 2013.

Tax preparation assistance at Volunteer Program sites

The Volunteer Program continues to play an important role in the IRS’s efforts to improve taxpayer service and facilitate participation in the tax system. It provides no-cost Federal tax return preparation and e-filing to underserved taxpayer segments, including low-income, elderly, persons with disabilities, rural, Native Americans, and limited-English-proficient taxpayers. As of March 17, 2013, more than two million tax returns have been prepared at the 13,081 Volunteer Program sites nationwide. Figure 9 shows the number of tax returns prepared by volunteers from Fiscal Years 2010 through 2012.

Figure 9: Volunteer Program Statistics for Fiscal Years 2010 Through 2012

	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012	Percentage Change (Fiscal Year 2011 to Fiscal Year 2012)
Tax Returns	3,085,512	3,188,524	3,264,997	2.4%
Volunteers	87,602	88,527	98,978	11.8%
Sites	12,326	12,486	13,143 ²⁰	5.3%

Source: IRS management information system containing Fiscal Years 2010 through 2012 information. Percentages are rounded.

²⁰ The Tax Returns and Sites totals do not include tax returns prepared using Facilitated Self-Assistance or those sites.



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We are conducting a separate review of the accuracy of tax return preparation at Volunteer Program sites. We plan to visit 39 Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites to determine if taxpayers receive quality service, including accurate preparation of their individual income tax returns. We developed scenarios designed to test quality controls and training the volunteers received in preparation for the 2013 Filing Season. We expect to issue our report in September 2013.

Self-assistance through IRS.gov and social media channels

The IRS is committed to helping taxpayers obtain the information they need to help them comply with the tax law. The IRS is offering more self-assistance options that taxpayers can access



24 hours a day, seven days a week. For example, the IRS offers IRS2Go, which is a mobile application that lets taxpayers interact with the IRS using their mobile device to access information and a limited number of IRS tools. In addition, the IRS uses various forms of social media including YouTube,

Twitter, Tumblr, and Facebook. As of March 21, 2013, the IRS has had more than 1.9 million new downloads of its IRS2Go mobile application, more than 1.5 million new views of IRS YouTube videos, and a 31 percent increase in Twitter followers.

Foremost is the IRS's public Internet site, IRS.gov. In spite of the late start to the filing season, as of March 9, 2013, the IRS reports a 21.1 percent increase in the number of visits to IRS.gov over the same period in the prior filing season. It also reports a 41.7 percent increase in the number of taxpayers obtaining their refund information online via the "Where's My Refund"²¹ option found on IRS.gov. Figure 10 shows the year-to-date comparisons of various IRS.gov activity levels for the 2010 through 2013 Filing Seasons.

Figure 10: Year-to-Date Comparisons of the 2010 Through 2013 Filing Seasons²²

	2010 Actual	2011 Actual	2012 Actual	2013 Actual
IRS.gov Visits	109,663,929	119,793,481	167,038,289	202,327,795
"Where's My Refund?"	37,217,050	43,309,204	86,861,305	123,090,163

Source: IRS 2010 through 2013 Filing Season Weekly reports.

²¹ The "Where's My Refund" feature suffered multiple outages at the beginning of the filing season. These outages ranged from a few seconds to a few hours. IRS management indicated that these outages were related to the significant increase in demand for the feature. The IRS set up a special team to address the outages.

²² The 2010 Filing Season is through the week ending March 6, the 2011 Filing Season is through the week ending March 5, the 2012 Filing Season is through the week ending March 3, and the 2013 Filing Season is through the week ending March 9.



Interim Results of the 2013 Filing Season

In addition, the IRS continues to offer the First-Time Homebuyer Credit Account Look-Up feature available on IRS.gov. This feature allows taxpayers to see the total amount of Homebuyer Credit they received, the amount they have paid back to date, the balance of their Homebuyer Credit, and their annual installment repayment amount. The Look-Up tool will help taxpayers determine whether they need to include any Homebuyer Credit repayment on their current year tax return.



Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to provide selected information related to the IRS's 2013 Filing Season¹ results as of March 9, 2013. To accomplish our objective, we:

- I. Identified volumes of paper and e-filed tax returns received through March 9, 2013, from the IRS Weekly Filing Season reports that provided a comparison to the 2012 Filing Season receipts for the same period.
- II. Identified selected tax legislation that affects the processing of individual taxpayer returns during the 2013 Filing Season.
- III. Identified MeF system processing statistics for the 2013 Filing Season.
- IV. Determined the status of the Paid Preparer EITC due diligence program. Using the IRS's Individual Return Transaction File, we determined that 80,585 paid tax return preparers have filed 612,622 tax returns claiming nearly \$1.9 billion in EITC without the required Form 8867, *Paid Preparer's Earned Income Checklist*, as of March 7, 2013.²
- V. Followed up on findings previously reported by the Treasury Inspector General for Tax Administration to ensure that the IRS has taken the agreed upon action to resolve the issues.³
 - A. Determined if the IRS has improved the processing of Homebuyer Credit repayments and dispositions. Using the Individual Return Transaction File, we identified 392,803 individuals who made \$125.3 million in Homebuyer Credit installment payments and 11,208 individuals who repaid \$3.4 million in Homebuyer Credits in conjunction with a disposition as of March 7, 2013.
 - B. Determined if taxpayers are continuing to receive Education Credits when the student is of an age unlikely to be enrolled in a four-year college degree program (younger than 14 or older than 65). Using the Individual Return Transaction file, we identified 10,659 tax returns claiming Education Credits totaling \$20.6 million for individuals who are younger than age 14. We also identified 7,402 tax returns claiming Education Credits totaling \$9.4 million for individuals who are older than age 65.

¹ See Appendix IV for a glossary of terms.

² Judgmental samples were selected and reviewed to ensure that the amounts presented were supported by external sources.

³ TIGTA, Ref. No. 2012-40-119, *The Majority of Individual Tax Returns Were Processed Timely, but Not All Tax Credits Were Processed Correctly During the 2012 Filing Season* (Sept. 2012).



Interim Results of the 2013 Filing Season

- VI. Compiled statistical information that is of interest to external stakeholders.
 - A. Quantified fraudulent tax returns, tax returns subject to identity theft, and tax returns filed by prisoners.
 - B. Determined whether individuals are using the savings bond option for direct purchase of savings bonds from their refunds.
 - C. Determined whether individuals have significantly increased their use of the split refund option for depositing their refunds.
- VII. Identified results for the IRS Taxpayer Assistance Center Program.
 - A. Obtained from the IRS Field Assistance Office statistics on taxpayers served at the Taxpayer Assistance Centers.
 - B. Reviewed the IRS Weekly Filing Season Report, which provides a year-to-date comparison of various Taxpayer Assistance Center activity levels for the 2010 through 2013 Filing Seasons.
- VIII. Identified results for the IRS Toll-Free Telephone Assistance Program by reviewing Performance Templates and Executive Level Summary reports from the Enterprise Telephone Data Warehouse for results for the filing season.
- IX. Identified results for IRS self-assistance through IRS.gov from the IRS Weekly Filing Season Report of IRS.gov activity levels for the 2010 through 2013 Filing Seasons. In addition, we identified the number of hits the “Where’s My Refund” feature has received and compared the results to the 2010 through 2012 Filing Seasons.
- X. Identified results for tax preparation assistance at Volunteer Program sites by quantifying the number of volunteers, volunteer sites, and number of returns prepared by volunteers for Fiscal Year 2012. We compared those figures to Fiscal Years 2010 through 2011.

Internal controls methodology

Internal controls relate to management’s plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the processes for planning, organizing, directing, and controlling program operations for the 2013 Filing Season. We also evaluated the controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing of tax returns for the 2013 Filing Season.



Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Acting Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Services and Operations, Wage and Investment Division SE:W
Director, Business Modernization Office, Wage and Investment Division SE:W:BMO
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
SE:W:CAR
Director, Electronic Tax Administration and Refundable Credits, Wage and Investment Division
SE:W:RICS
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Director, Accounts Management, Wage and Investment Division SE:W:CAS:AM
Director, Field Assistance, Wage and Investment Division SE:W:CAR:FA
Director, Joint Operations Center, Wage and Investment Division SE:W:CAS:JOC
Director, Stakeholder Partnership, Education, and Communications, Wage and Investment
Division SE:W:CAR:SPEC
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PEI
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
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Appendix IV

Glossary of Terms

Average Speed of Answer	The average number of seconds taxpayers waited in the assistor queue (on hold) before receiving services.
Earned Income Tax Credit	A refundable Federal tax credit for low-income working individuals and families.
Electronic Fraud Detection System	An automated system used to maximize fraud detection at the time tax returns are filed to eliminate the issuance of questionable refunds.
Enterprise Telephone Data Warehouse	The official source for all data related to toll-free telephone system measures and indicators.
Facilitated Self-Assistance	Facilitated Self-Assistance is an initiative to provide self-help assistance kiosks at Taxpayer Assistance Centers. The kiosks can be used by taxpayers to access IRS.gov to file their tax returns, print tax forms and publications, or conduct tax research.
Filing Season	The period from January 1 through mid-April when most individual income tax returns are filed.
First-Time Homebuyer Credit	A refundable Federal tax credit for individuals who purchase a home.
Fiscal Year	A 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Free File	A free Federal tax preparation and e-filing program for eligible taxpayers developed through a partnership between the IRS and the Free File Alliance, LLC. The Alliance is a group of private sector tax software companies.
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Individual Return Transaction File	A database the IRS maintains that contains information on the individual tax returns it receives.



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Level of Service	The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS toll-free telephone lines.
Processing Year	The calendar year in which the return or document is processed by the IRS.
Submission Processing Site	The data processing arm of the IRS. The sites process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Tax Year	The 12-month period for which tax is calculated. For most individual taxpayers, the tax year is synonymous with the calendar year.
Taxpayer Assistance Centers	Walk-in sites where taxpayers can obtain answers to both account and tax law questions, as well as receive assistance in preparing their tax returns.
Volunteer Program	Includes the Volunteer Income Tax Assistance Program, including the Volunteer Income Tax Assistance Grant Program and the Tax Counseling for the Elderly Program. The Volunteer Program provides free tax assistance to persons with low-to-moderate income (generally \$50,000 and below), the elderly, persons with disabilities, and persons with limited-English proficiency.