



Treasury Inspector General for Tax Administration Office of Audit

PROCESSES ENSURE THAT TAXPAYER IDENTIFICATION NUMBERS USED TO CLAIM DEPENDENT EXEMPTIONS ARE VALID

Issued on June 4, 2013

Highlights

Highlights of Report Number: 2013-40-059 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Individuals claimed \$641 billion in exemptions in Processing Year 2012. Exemptions reduce the amount of income on which an individual's tax is computed. Individuals can claim one personal exemption and one exemption for each person that they can claim as a dependent. Taxpayers must enter a valid Taxpayer Identification Number (TIN) for each dependent they claim. The IRS may disallow the exemption if a valid TIN is not provided.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the validation of dependent TINs used to claim exemptions on tax returns is sufficient to reduce the risk of improper payments and loss of tax revenue.

WHAT TIGTA FOUND

The IRS verified more than 99.6 percent (95.2 million) of the 95.6 million dependents claimed on Processing Year 2012 tax returns. IRS controls ensure that dependent TINs used to claim dependent exemptions are valid numbers.

A TIN is considered valid if the identification number and name match Social Security Administration or IRS records. The IRS rejects electronically filed tax returns and sends them back to the taxpayer for correction if the TIN and/or name on the tax return do not match IRS records. If the TIN and/or name on a paper tax return do not match the IRS's information, the IRS disallows the exemption and sends the taxpayer a notice regarding the mismatch.

However, the IRS limits the number of dependent TINs it verifies on each tax return. Our review of a statistically valid sample of 519 of the 217,192 tax returns containing dependent TINs not verified by the IRS for Processing Year 2012 identified only three tax returns that contained invalid dependent TINs. Based on our review, TIGTA

estimates that the unverified dependent TINs claimed on 215,937 (99.4 percent) of the 217,192 Processing Year 2012 tax returns were valid.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report.

Because no recommendations were made in this report, the IRS decided not to provide a formal response.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2013reports/201340059fr.pdf>.