



Treasury Inspector General for Tax Administration Office of Audit

UNSUPPORTED AND POTENTIALLY ERRONEOUS CLAIMS FOR GENERAL BUSINESS CREDITS ARE NOT ALWAYS IDENTIFIED WHEN TAX RETURNS ARE PROCESSED

Issued on September 16, 2013

Highlights

Highlights of Report Number: 2013-40-093 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The General Business Credit exists as an incentive for a business to engage in certain kinds of activities considered beneficial to the economy or public at large, such as improving disability access at their business for customers or providing childcare for employees. In Tax Year 2011, the IRS received 455,618 Forms 1040, *U.S. Individual Income Tax Return*, with General Business Credits offsetting the taxes owed by more than \$2 billion. TIGTA found that ineffective processes result in individuals receiving potentially erroneous General Business Credits.

WHY TIGTA DID THE AUDIT

In Tax Year 2011, individual taxpayers claimed nearly \$7.9 billion in General Business Credits. The General Business Credit reduces the tax liability amount an individual owes. The objective of this review was to assess the effectiveness of IRS controls to detect and prevent questionable claims for the General Business Credit on individual income tax returns.

WHAT TIGTA FOUND

Our review of Tax Year 2011 tax returns with claims for General Business Credits found that the IRS has not established effective processes to identify individuals claiming potentially erroneous General Business Credits at the time tax returns are processed. TIGTA found 8,657 Tax Year 2011 electronically filed tax returns with unsupported and potentially erroneous claims for General Business Credits totaling approximately \$1.3 billion. In addition, the IRS did not always ensure that required source credit forms were attached to paper-filed tax returns.

Finally, the IRS needlessly expended approximately \$76,000 to review 145,583 tax returns for which a

programming error incorrectly identified an error in the computation of the General Business Credit.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS develop processes to identify individuals claiming a General Business Credit on tax returns with unsupported and potentially erroneous claims for General Business Credits.

The IRS agreed with all of our recommendations and plans to develop a compliance strategy that considers the treatment and resources to address questionable claims. In addition, the IRS plans to use the strategy to determine the need for procedural changes for returns processing, revisions to forms or instructions, and any underlying programming changes to its systems.

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/201340093fr.pdf>.