



## Treasury Inspector General for Tax Administration Office of Audit

### ALL INDIVIDUAL TAX RETURNS FILED ELECTRONICALLY IN THE 2013 FILING SEASON WERE PROCESSED USING THE MODERNIZED E-FILE SYSTEM

Issued on September 27, 2013

## Highlights

Highlights of Report Number: 2013-40-131 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

The Modernized e-File (MeF) system replaced the Legacy e-File system as the primary electronic filing (e-filing) platform for individual tax returns during the 2013 Filing Season. The MeF system provides real-time processing of tax returns and extensions that will improve error detection, standardize business rules, and expedite tax return acknowledgments to taxpayers. The IRS successfully transferred the processing of all e-filed tax returns to the MeF system during the 2013 Filing Season.

### WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS successfully transitioned e-filing of individual tax returns to the MeF system for the 2013 Filing Season. The objective of this review was to determine whether the MeF system received, processed, and posted individual tax return information timely, accurately, and effectively.

### WHAT TIGTA FOUND

The IRS successfully transitioned the processing of all e-filed individual income tax returns through the MeF system for the 2013 Filing Season. As of May 4, 2013, the IRS received approximately 129 million e-filed Tax Year 2012 Forms 1040, *U.S. Individual Income Tax Return*. The IRS accepted approximately 114 million (88 percent) of the 129 million tax returns and rejected more than 15 million (12 percent) tax returns.

The MeF system processed most tax returns correctly. Our review of a statistical sample of 560 Forms 1040 tax returns received by the IRS from January 30 through May 4, 2013, found that 558 tax returns (99.6 percent) were processed correctly. TIGTA found that the MeF system did not identify the remaining two tax returns for taxpayers who appeared to have a requirement to pay self-employment tax but did not pay it.

Further review of the tax returns with qualifying self-employment income on Schedule C, *Profit or Loss From Business*, filed from January 27, 2013, through June 29, 2013, for which the taxpayer did not pay self-employment tax, identified additional taxpayers with self-employment income for whom IRS records showed that they were not exempt from paying self-employment tax.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, revise the Error Resolution Program to identify and correspond with all taxpayers who claim qualifying self-employment income but no corresponding self-employment tax is paid, and there is no indication that the taxpayer has an exemption from paying the tax to obtain a Schedule SE, *Self-Employment Income*. The Commissioner, Wage and Investment Division, should also initiate a program to correspond with the taxpayers TIGTA identified to obtain a Schedule SE and ensure that the proper amount of self-employment tax is assessed.

In their response to the report, IRS management agreed with our first recommendation and stated that it plans to review existing processes and consider reducing the tolerances to address more taxpayers who claim qualifying self-employment tax with no tax paid and no indication of an exemption. The IRS did not agree with our second recommendation to correspond with the 11,700 taxpayers TIGTA identified. However, the IRS plans to consider cost-effective alternatives to provide for optimal coverage at the time tax returns are processed.

### 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/201340131fr.pdf>.