



## Treasury Inspector General for Tax Administration Office of Audit

### FURTHER ACTIONS ARE NEEDED TO RESOLVE MILLIONS OF DOLLARS OF FROZEN CREDITS IN TAXPAYER ACCOUNTS

Issued on September 26, 2014

## Highlights

Highlights of Report Number: 2014-30-089 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed and the Wage and Investment Divisions.

### IMPACT ON TAXPAYERS

The IRS's computer system uses coding to identify situations that either require special handling by the IRS or for which the IRS is awaiting the outcome of a future event. These situations are commonly referred to as freeze conditions. Taxpayer accounts in "credit" status (payments exceeding assessments) and also coded with at least one freeze condition are commonly referred to as frozen credit accounts. If freeze conditions are not adequately identified and resolved, IRS processing of taxpayer frozen credit accounts can be delayed and taxpayers can be adversely affected by delayed refunds or payments not applied to the proper tax modules.

### WHY TIGTA DID THE AUDIT

This audit was initiated to determine what actions the IRS has taken to resolve both individual and business taxpayer accounts with certain frozen credits. The review is part of TIGTA's planned Fiscal Year 2014 audit coverage and addresses the major management challenge of Tax Compliance Initiatives.

### WHAT TIGTA FOUND

The IRS has procedural requirements and standardized systemic checks in place to identify and resolve most frozen credit accounts. In addition, the IRS has conducted research projects to identify ways to improve the processing of frozen credit accounts.

However, TIGTA found that further actions are needed to resolve some accounts with frozen credit conditions. TIGTA also found that some IRS computer systems need modifications to better reflect current procedures.

TIGTA reviewed samples of three frozen credit conditions: (1) no returns with satisfying transactions, (2) advance payments for audit adjustments, and (3) taxpayers in bankruptcy. TIGTA identified 156 individual tax modules with credits of \$46.4 million

and 128 business tax modules with credits of almost \$1.6 billion for which the IRS did not take actions that could have resolved the credit tax modules sooner.

### WHAT TIGTA RECOMMENDED

TIGTA made 10 recommendations including that the IRS reemphasize existing procedures for processing freeze conditions, establish and enforce new procedures for processing some freeze conditions, and make improvements to computer systems to more accurately reflect current procedures.

In response to the report, IRS management agreed with nine of the 10 recommendations and plans to take appropriate corrective actions. However, IRS management stated that, due to resource constraints, they will not take corrective actions for two agreed recommendations related to improving computer systems. For the one disagreed recommendation, IRS management believes the current process will ensure that credits are properly resolved within the Offshore Voluntary Disclosure Program. TIGTA continues to believe that the IRS remains at risk for not resolving frozen credits in taxpayer accounts by not implementing all of the recommendations.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2014reports/201430089fr.pdf>.