



Office of Audit

**Treasury  
Inspector  
General for Tax  
Administration**



Recovery Act

## **PROCESSES FOR ENSURING COMPLIANCE WITH QUALIFYING ADVANCED ENERGY PROJECT CREDIT REQUIREMENTS CAN BE STRENGTHENED**

Issued on February 6, 2014

# Highlights

Highlights of Report Number: 2014-40-011 to the Internal Revenue Service Commissioners for the Large Business and International Division and the Small Business/Self-Employed Division.

### **IMPACT ON TAXPAYERS**

The American Recovery and Reinvestment Act of 2009 (the Recovery Act) established the Qualifying Advanced Energy Project Credit (Advanced Energy Credit) to encourage development of a manufacturing base to support renewable energy industries. The Recovery Act provided for \$2.3 billion in Advanced Energy Credits to be allocated to manufacturers for qualified projects. Manufacturers awarded the credit must meet specific requirements to claim the credit on their income tax returns. While the IRS established processes to ensure manufacturer compliance with requirements for receiving the Advanced Energy Credit, these processes can be strengthened to ensure that only eligible manufacturers receive the credit.

### **WHY TIGTA DID THE AUDIT**

Internal Revenue Code Section 48C and IRS Notice 2009-72, *Qualifying Advanced Energy Project Credit*, contain requirements that manufacturers must meet to be eligible to claim the credit for income tax purposes. The objective of this review was to assess the effectiveness of IRS efforts to ensure manufacturer compliance with Advanced Energy Credit requirements.

### **WHAT TIGTA FOUND**

The IRS ensured that manufacturers complied with agreement and certification requirements. In addition, for those projects that did not meet the agreement and/or certification requirements, the IRS appropriately considered the credits allocated to the projects as forfeited, issued the manufacturers forfeit letters, and accounted for the \$150 million in Advanced Energy Credits allocated to these projects.

However, TIGTA found that the IRS did not consistently evaluate project location changes to determine if the change should result in credit forfeiture. Further, although the IRS has processes to ensure manufacturer compliance with agreement, certification, and placed-in-service requirements, similar processes were not in place to verify compliance with the provision to notify the IRS of significant changes in project plans.

Finally, while the IRS developed a Compliance Initiative Project that identifies business taxpayers erroneously claiming the credit, it does not have a similar process to identify individual taxpayers erroneously claiming the credit. Our review identified 1,149 individual taxpayers who electronically filed Forms 1040, *U.S. Individual Income Tax Return*, reporting more than \$3 million in Advanced Energy Credits for Tax Year 2011 and who do not appear to have a business relationship with a manufacturer that was awarded the credit.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the IRS develop processes to ensure that changes in projects are fully evaluated and that all projects are placed into service at the locations specified in the manufacturer's agreement. In addition, the IRS should develop a process to verify that individual tax returns claiming the Advanced Energy Credit are valid and entitled to the credit.

IRS management agreed with the recommendations. The IRS agreed to ensure that changes in projects are fully evaluated and that all projects are placed into service at the locations specified in the manufacturer's agreement. The IRS also agreed to evaluate and assess individual taxpayer compliance risks and determine if a compliance strategy is warranted based on its assessment of individual taxpayer compliance risks.

### **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/201440011fr.pdf>.