



Treasury Inspector General for Tax Administration Office of Audit

THE AFFORDABLE CARE ACT: PROCESSES HAVE BEEN IMPLEMENTED TO ADMINISTER THE PATIENT-CENTERED OUTCOMES RESEARCH FEE, BUT CONTROLS NEED IMPROVEMENT TO ENSURE FILING COMPLIANCE

Issued on March 26, 2015

Highlights

Highlights of Report Number: 2015-33-019 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

The Patient Protection and Affordable Care Act of 2010 (ACA) includes a tax provision that provides for an excise tax equal to one or more dollars based on the average number of lives covered under a specified health insurance policy or self-insured health plan during a specific year. The new Patient-Centered Outcomes Research (PCOR) fee is used to offset the costs of the PCOR Institute, which funds research that will provide information to assist patients and their healthcare providers make more informed healthcare decisions.

WHY TIGTA DID THE AUDIT

This audit is part of TIGTA's continued coverage of the IRS's implementation of key ACA tax provisions. The overall objective of this review was to evaluate the IRS's implementation of the ACA Section 6301 dealing with the PCOR Trust Fund.

WHAT TIGTA FOUND

TIGTA found that 72,035 health insurance policy issuers/self-insured plan sponsors filed a Form 720, *Quarterly Federal Excise Tax Return*, with PCOR fees totaling \$114 million for Tax Year 2012. Of these filers, 30,996 (43 percent) paid a PCOR fee of less than \$4.25, which is the IRS's cost to process these returns.

The IRS developed a PCOR compliance plan that states it will use third-party data sources to identify potential nonfilers. The IRS is in the process of analyzing this information for use in evaluating Tax Year 2012 return filing compliance. However, the data that the IRS obtained do not include the necessary information to calculate the potential PCOR fees owed by these nonfilers.

TIGTA reviewed additional data from these third-party sources. For Tax Year 2012, TIGTA identified 25 health insurance policy issuers and 1,753 self-insured health plan sponsors that potentially did not file a Form 720 reporting a PCOR fee as required.

For the quarter ending June 30, 2013, TIGTA also found 2,242 transactions had transcription errors which resulted in an overstatement of approximately 359 million average lives covered. While the average number of lives recorded in the Business Return Transaction File is not reliable, these errors do not affect the PCOR fees paid.

WHAT TIGTA RECOMMENDED

TIGTA recommended that: 1) the IRS obtain the data needed to identify noncompliance with the filing and payment requirements for PCOR fees; 2) based on these results, identify nonfilers, send notices as appropriate, and determine if additional enforcement actions are required; 3) alert and instruct employees on how to avoid the significant Form 720 transcription errors that materially affect the accuracy of the average number of lives covered for the PCOR fees; and 4) establish a systemic error report for the Form 720 with a PCOR fee and refer accounts for possible examination that do not match.

In their response to the report, IRS officials agreed with the first three recommendations but disagreed with the fourth recommendation, stating that they have limited Information Technology resources and funding available. However, TIGTA believes establishing a systemic error report that generates when the PCOR fee and/or tax payments do not match for Forms 720 with a PCOR fee will have minimal impact on IRS resources, as well as allow the IRS to improve its monitoring of PCOR fee reporting and payment compliance.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2015reports/201533019fr.pdf>.