



Treasury Inspector General for Tax Administration Office of Audit

PROCESSES DO NOT ENSURE THAT CORPORATIONS ACCURATELY CLAIM CARRYFORWARD GENERAL BUSINESS CREDITS

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Highlights

Highlights of Report Number: 2015-40-012 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

IMPACT ON TAXPAYERS

The general business credit (made up of several separate business-related credits) is offered 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 for customers or providing child care for employees' children. During Processing Year 2013, the IRS received 87,674 corporate tax returns with general business credits that offset taxes owed by more than \$21 billion.

WHY TIGTA DID THE AUDIT

During Processing Year 2013, corporate filers claimed general business credits totaling more than \$93 billion. The objective of this review was to determine whether the IRS's controls are adequate to identify questionable general business credits claimed on business tax returns.

WHAT TIGTA FOUND

TIGTA identified 3,285 electronically filed Forms 1120, *U.S. Corporation Income Tax Return*, filed in Processing Year 2013 on which corporations claimed potentially erroneous carryforward credits totaling more than \$2.7 billion.

TIGTA also found that a programming error caused some corporations to not receive general business credits they claimed. TIGTA identified 717 Processing Year 2013 corporate tax returns for which taxpayers did not receive more than \$170 million in Empowerment Zone Employment Credits they claimed.

Finally, TIGTA identified 1,411 corporate tax returns filed in Processing Years 2012 and 2013 that erroneously claimed a current year general business credit as an Eligible Small Business subsequent to the expiration of

the relevant tax provision. These businesses claimed almost \$35 million in general business credits as an Eligible Small Business.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS verify whether the 3,285 corporate filers TIGTA identified as having a questionable carryforward amount are entitled to claim the carryforward amount. The IRS should also determine whether the programming error affects paper-filed business returns and verify whether taxes were affected for the 1,411 corporate filers TIGTA identified as having an incorrect Eligible Small Business designation.

In their response, IRS management agreed with three of our recommendations and disagreed with two. The IRS plans to review two samples of cases for audit potential and determine whether any further action is required. In addition, the IRS has requested corrections to general business credit programming for the 2016 Filing Season. TIGTA is concerned about the lack of sufficient corrective action in response to the other two recommendations. Implementing these recommendations would significantly improve the IRS's ability to ensure compliance in this area.

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/201540012fr.pdf>.