



Interim Results of the 2015 Filing Season

March 31, 2015

Reference Number: 2015-40-032

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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HIGHLIGHTS

INTERIM RESULTS OF THE 2015 FILING SEASON

Highlights

Final Report issued on March 31, 2015

Highlights of Reference Number: 2015-40-032 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The filing season, defined as the period from January 1 through mid-April, is critical for the IRS because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific laws or filing procedures.

WHY TIGTA DID THE AUDIT

The objective of this review was to provide selected information related to the IRS's 2015 Filing Season. TIGTA plans to issue the final results of our analysis of the 2015 Filing Season in September 2015.

WHAT TIGTA FOUND

Prior to the start of this filing season, the IRS was challenged by the late enactment of tax provisions that were set to expire. To reduce the impact on the filing season, the IRS monitored the status of the extender legislation and took steps prior to its enactment to prepare for the extension of these provisions. These efforts enabled the IRS to begin accepting and processing individual tax returns on January 20, 2015, as scheduled.

As of March 6, 2015, the IRS received more than 66.7 million tax returns—more than 62.3 million (93.5 percent) were filed electronically and more than 4.3 million (6.5 percent) were filed on paper. The IRS has issued more than 54.2 million refunds totaling more than \$162 billion. In addition, as of February 26, 2015, the IRS processed 737,148 tax returns that reported more than \$2.1 billion in Premium Tax Credits that were either received in advance or claimed at the time of filing. More than 3.7 million tax returns reported shared

responsibility payments totaling more than \$655 million for not maintaining required health insurance coverage.

The IRS is continuing to expand its efforts to detect tax refund fraud. As of March 7, 2015, the IRS reports that it identified 36,674 tax returns with \$172.9 million claimed in fraudulent refunds and prevented the issuance of \$132.8 million (76.8 percent) in fraudulent refunds. In addition, the IRS reports that expanded use of controls to identify fraudulent refund claims before they are accepted into the processing system has identified approximately 37,000 fraudulent electronically filed tax returns and approximately 10,000 paper tax returns as of March 5, 2015. The IRS also identified and confirmed 16,523 fraudulent tax returns involving identity theft as of February 28, 2015, and identified 26,797 prisoner tax returns for screening as of March 7, 2015.

During Fiscal Year 2015, the IRS plans to assist 5.3 million taxpayers through face-to-face contact at the Taxpayer Assistance Centers, which is a nearly 4 percent decrease from Fiscal Year 2014. As of March 7, 2015, approximately 45.6 million taxpayers contacted the IRS by calling the various Customer Account Services function toll-free telephone assistance lines. IRS assistors have answered 4.2 million calls and provided a 38.5 percent Level of Service with a 24.6 minute Average Speed of Answer. The Level of Service for the 2014 Filing Season was 74.7 percent.

As a result of continued budget cuts, the IRS is depending even more on technology-based services. As such, the IRS continues to offer more self-assistance options that taxpayers can access 24 hours a day, seven days a week, including its IRS2Go app; YouTube channels; interactive self-help tools on IRS.gov; and Twitter, Tumblr, and Facebook accounts.

WHAT TIGTA RECOMMENDED

This report was prepared to provide interim information only. Therefore, no recommendations were made in the report.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 31, 2015

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Interim Results of the 2015 Filing Season
(Audit # 201540018)

This report presents selected information related to the Internal Revenue Service's (IRS) 2015 Filing Season results.¹ As part of our Fiscal Year 2015 Annual Audit Plan, we are conducting several ongoing audits that are related to specific issues in this report. Our overall objective was to provide selected information related to the IRS's 2015 Filing Season. This review addresses the major management challenge of Implementing the Affordable Care Act and Other Tax Law Changes. We will continue to provide IRS management with information on any areas of immediate concern throughout our audit process.

This report was prepared to provide information only. Therefore, we made no recommendations in the report. However, we provided IRS management officials with an advance copy of this report for review and comment prior to issuance.

Copies of this report are also being sent to the IRS managers affected by the report information. If you have any questions, please contact me or Russell P. Martin, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

¹ See Appendix V for a glossary of terms.



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Abbreviations

ACA	Affordable Care Act
APTC	Advance Premium Tax Credit
CADE	Customer Account Data Engine
e-file(d), e-filing	Electronically File(d); Electronic Filing
EITC	Earned Income Tax Credit
EPD	Exchange Periodic Data
IRS	Internal Revenue Service
PTC	Premium Tax Credit
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration



Interim Results of the 2015 Filing Season

Background

The annual tax return filing season¹ is a critical period for the Internal Revenue Service (IRS) because it is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. During Calendar Year 2015, the IRS expects to receive more than 149 million (approximately 21.3 million paper and 128.1 million electronic) individual income tax returns. In addition, the IRS expects to provide assistance to millions of taxpayers via the telephone, website, social media, and face-to-face assistance. The IRS plans to process individual income tax returns at five Wage and Investment Division Submission Processing sites² during the 2015 Filing Season.

One of the challenges the IRS confronts each year in processing tax returns is the implementation of new tax law changes as well as changes resulting from expired tax provisions. Before the filing season begins, the IRS must identify the tax law and administrative changes affecting the upcoming filing season. Once identified, the IRS must revise the various tax forms, instructions, and publications. It also must reprogram its computer systems to ensure that tax returns are accurately processed. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, and/or result in incorrect taxpayer notices.

Tax law changes affecting the 2015 Filing Season

- ***The Patient Protection and Affordable Care Act (ACA)***³ – Enacted March 23, 2010, its provisions provide incentives and tax breaks to individuals and small businesses to offset health care expenses. They also impose penalties, administered through the tax code, for individuals and businesses that do not obtain health care coverage for themselves or their employees. The ACA represents the largest set of tax law changes in more than 20 years and continues to represent a significant challenge to the IRS. The IRS is responsible for implementing two primary provisions of the ACA during the 2015 Filing Season:
 - **Minimum Essential Coverage and the Shared Responsibility Payment** – Taxpayers must report on their tax returns that they and all of their dependents had health coverage during Tax Year 2014 or that they are exempt from the requirement. Taxpayers who did not maintain coverage or were not exempt will be subject to a penalty, referred to as the shared responsibility payment, for each individual for whom coverage was not maintained. Taxpayers who maintained coverage for

¹ See Appendix V for a glossary of terms.

² Fresno, California; Kansas City, Missouri; and Austin, Texas, will process paper and electronically filed tax returns. Andover, Massachusetts, and Philadelphia, Pennsylvania, will process only electronically filed tax returns.

³ Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.



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- themselves and their dependents will check a box on Form 1040, *U.S. Individual Income Tax Return*. Taxpayers who are exempt or who have one or more exempt dependents are required to complete Form 8965, *Health Coverage Exemptions*. Taxpayers who do not maintain required coverage or have an exemption are required to compute the shared responsibility payment using a worksheet in the Form 8965 instructions and report the payment on Form 1040 as additional tax due.
- **Premium Tax Credit (PTC)** – The PTC was created to help make health insurance more affordable for moderate-income families by providing assistance in paying for health insurance premiums. Individuals who purchase their health insurance through a Health Insurance Exchange⁴ and who meet certain income requirements may be entitled to receive the PTC. Individuals can elect to receive the PTC in advance as monthly payments directly to their health insurance provider as payment for their premium (the Advance PTC (APTC)) or wait and claim the PTC on their annual tax return. All individuals who elect to receive the APTC must file a tax return to reconcile the advance payments to their allowable PTC for the tax year.
 - ***Tax Increase Prevention Act of 2014***⁵ – Enacted on December 19, 2014, this act extended over 50 tax provisions that expired at the end of Calendar Year 2013.

The interim 2015 Filing Season results are being presented as of several dates between February 26 and March 16, 2015, depending on when the data were available. Later this year, we will issue our 2015 Filing Season report. This review was performed with information obtained from the Wage and Investment Division Headquarters located in Atlanta, Georgia; the Wage and Investment Division Submission Processing function offices in Cincinnati, Ohio; and the Information Technology organization Headquarters in Lanham, Maryland. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁴ The ACA created the Health Insurance Marketplace, also known as the Exchange. The Exchange is where individuals find information about health insurance options, purchase qualified health plans, and obtain help paying premiums (if eligible).

⁵ Pub. L. No. 113-295 (H.R. 5771) .



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Results of Review

Processing Tax Returns

Prior to the start of this filing season, the IRS was challenged by the late enactment of tax provisions that were set to expire. To reduce the impact on the filing season, the IRS monitored the status of the extender legislation and took steps prior to its enactment to prepare for the extension of these provisions. These efforts enabled the IRS to begin accepting and processing individual tax returns on January 20, 2015, as scheduled. In addition, the IRS has the challenge of carrying out its mission with a significantly reduced budget. In January 2015, the Commissioner informed IRS employees that the Fiscal Year 2015 budget cuts will lead to delayed updates to information technology infrastructure and fewer staff on hand to deal with discrepancies on tax returns and to answer taxpayers' questions. The Commissioner also stated that the IRS expects that 50 percent of taxpayers who call the IRS seeking assistance will not be able to get through, and those that do get through will have extended wait times.

As of March 6, 2015, the IRS received more than 66.7 million tax returns. Taxpayers are electronically filing (e-filing) a higher proportion of tax returns than in the 2014 Filing Season. Figure 1 presents comparative filing season statistics as of March 6, 2015.

**Figure 1: Comparative Filing Season Statistics
(as of March 6, 2015)**

Cumulative Filing Season Data	2014 Actual	2015 Actual	% Change
Individual Income Tax Returns			
Total Returns Received (000s)	67,183	66,700	-0.7%
Paper Returns Received (000s)	4,970	4,358	-12.3%
E-Filed Returns Received (000s)	62,213	62,342	0.2%
Practitioner Prepared (000s)	34,816	33,419	-4.0%
Home Computer (000s)	27,397	28,923	5.6%
Free File (000s) <i>(also in the Home Computer total)</i>	1,880	1,626	-13.5%
Fillable Forms (000s) <i>(also in the Home Computer total)</i>	143	136	-4.5%
Percentage of Returns E-Filed	92.6%	93.5%	0.9%



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Cumulative Filing Season Data	2014 Actual	2015 Actual	% Change
Refunds			
Total Number Issued (000s)	55,434	54,258	-2.1%
Total \$ (in millions)	\$164,586	\$162,106	-1.5%
Average \$	\$2,969	\$2,988	0.6%
Total Number of Direct Deposits (000s)	47,976	48,699	1.5%
Total Direct Deposit \$ (in millions)	\$146,305	\$151,554	3.6%

Source: Multiple 2015 Filing Season reports. Totals and percentages shown are rounded. 2014 Filing Season figures are through March 7, 2014; 2015 Filing Season figures are through March 6, 2015.

The IRS continues to modernize its filing season applications through the Customer Account Data Engine (CADE) 2 program

The IRS indicated that it continues to modernize its filing season applications in Fiscal Year 2015 under the CADE 2 program. For example, the IRS included additional enhancements to CADE 2 to use consistent computations for penalty and interest in its various systems that use CADE 2 data relating to individual and business accounts when taxes are not received by the due date. These systems include the Integrated Data Retrieval System, Individual Master File, and Business Master File in January 2014.

Use of the savings bond and split refund options

Through March 5, 2015, a total of 20,583 individuals requested to convert refunds totaling more than \$7.4 million into savings bonds. Additionally, 389,785 taxpayers chose to split tax refunds totaling more than \$1.9 billion between two or three different checking or savings accounts. Figure 2 shows a comparison of taxpayers' use of the split refund and savings bond options for Processing Years 2014 and 2015 as of March 5, 2015.



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Figure 2: Use of Savings Bonds and Split Refunds for Processing Years 2014 and 2015

Savings Bonds	2014 Actual	2015 Actual
Total Returns	22,174	20,583
Total Refunds to Bonds \$ (in thousands)	\$7,886	\$7,426

Split Refunds	2014 Actual	2015 Actual
Total Returns	585,331	389,785
Total Refunds Split \$ (in thousands)	\$2,660,000	\$1,924,000

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of the IRS Individual Return Transaction File as of March 6, 2014, and March 5, 2015. Totals are rounded.

Beginning with the 2015 Filing Season, the IRS implemented new direct deposit refund rules that limit the number of refunds deposited into one bank account to a maximum of three. The IRS will convert any subsequent direct deposit refund requests for a bank account to a paper check and mail the check to the taxpayer's address of record. The taxpayer will receive a notice explaining why their refund was converted to a paper check. In addition, the IRS is limiting the number of bank accounts among which a taxpayer can split a refund to no more than three.

We are evaluating the tax preparers' use of Form 8888, *Allocation of Refund (Including Savings Bond Purchases)*, and the IRS's efforts to limit the number of direct deposits to one bank account. We will provide the final results of our assessment in our 2015 Filing Season report that will be issued later this year. In addition, we are conducting a separate review of the IRS's implementation of the new direct deposit rules and anticipate issuing our results later this fiscal year.

Implementation of Affordable Care Act provisions

As of February 26, 2015, the IRS processed 737,148 tax returns that reported more than \$2.1 billion in PTCs that were either received in advance or claimed at the time of filing. Figure 3 below provides results from our analysis of tax returns filed and processed as of February 26, 2015.



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**Figure 3: Premium Tax Credit Statistics
(as of February 26, 2015)**

Total Tax Returns With a PTC	737,148
Total PTC Amount (includes APTC and PTC)	\$2.1 billion
<i>Total APTC Amount</i>	<i>\$2.0 billion</i>
<i>Total PTC Claimed at Filing in Excess of APTC</i>	<i>\$98.3 million</i>
Tax Returns on Which the PTC Equals the APTC Received	
Tax Returns	89,572
Total PTC Amount	\$170.0 million
Tax Returns With an Additional PTC Amount (taxpayer is entitled to more PTC than what was received in APTC)	
Total Tax Returns	285,002
Total PTC Amount (includes APTC and PTC)	\$890.4 million
<i>Total APTC Amount</i>	<i>\$792.1 million</i>
<i>Total PTC Claimed at Filing in Excess of the APTC</i>	<i>\$98.3 million</i>
Tax Returns With Excess APTC Payments (taxpayer receives more APTC than PTC entitled and has to repay)	
Total Tax Returns	362,574
Total APTC Amount	\$1.1 billion
Total APTC Reported in Excess of the PTC	\$305.2 million
<i>Total APTC Above the Repayment Limit (not repaid)</i>	<i>\$146.1 million</i>
<i>Total APTC Below the Repayment Limit (repaid)</i>	<i>\$159.2 million</i>

Source: TIGTA analysis of individual tax returns processed as of February 26, 2015.
Totals and percentages shown are rounded.

Delays in receiving Exchange Periodic Data (EPD)⁶ increase the risk of not detecting erroneous PTC claims at the time tax returns are processed. The IRS did not receive all required EPD submissions from the Exchanges prior to the January 20, 2015, start of the 2015 Filing Season.

⁶ The ACA requires Exchanges to provide the IRS with information regarding individuals who are enrolled by the Exchange on a monthly basis. These data are referred to as EPD.



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For example, the Centers for Medicare and Medicaid Services indicated that it would not send approximately 1.7 million (40 percent) of the approximately 4.2 million Federal Exchange enrollment records to the IRS until mid-February.⁷ In addition, six of the 15 State Exchanges had not provided enrollment data to the IRS as of January 20, 2015.

As of March 5, 2015, the IRS indicated that four of the six States for which the IRS had no EPD as of January 20, 2015, had subsequently submitted EPD and Form 1095-A, *Health Insurance Marketplace Statement*, data. In addition, the IRS received additional enrollment data from the Centers for Medicare and Medicaid Services. However, IRS management indicated that the IRS has not been able to load the EPD submitted in January and February into its processing systems for use in verifying PTC claims. The inability to load the EPD results from computer system performance issues. The IRS has addressed the performance issues and plans to begin loading data received in February and March on March 29, 2015. The IRS indicated that it does not know when it will receive the EPD or Forms 1095-A data from the other two State Exchanges.

In response to the delays in receiving required EPD, the IRS developed contingency plans in an effort to improve its ability to ensure the accuracy of PTC claims. These plans include a combination of at-filing (*i.e.*, when tax returns are processed) data filters and post-processing compliance activities to address those claims that cannot be verified using the EPD. For example, tax returns claiming the PTC or an APTC repayment are matched to monthly EPD to ensure that the taxpayer properly reported and reconciled APTC payments received. Tax returns with discrepancies are suspended from processing. Depending on the amount of the discrepancy, the IRS will take one of two actions:

- Mark the tax return for possible post-processing examination and continue to process the tax return.
- Research available Form 1095-A data to attempt to resolve the discrepancy. If the discrepancy still cannot be resolved, the IRS will suspend the processing of the tax return and correspond with the taxpayer. If information provided by the taxpayer supports the claim, the IRS will process the tax return. If the information provided does not support the claim, the IRS will consider the return for either prerefund or post-refund examination.

Tax returns with PTC claims from those States that have not submitted either EPD or Forms 1095-A are processed and marked for post-processing compliance activity.

In addition, on February 20, 2015, the Centers for Medicare and Medicaid Services reported that about 20 percent of the tax filers who had coverage from the Federal Exchange in Calendar Year 2014 and used tax credits to lower their premium costs – about 800,000 (less than 1 percent of total tax filers) – will soon receive an updated Form 1095-A because the original version they

⁷ As of January 20, 2015, the IRS had received partial data for individuals in 35 of the 36 States participating in the Federal Exchange.



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were issued listed an incorrect benchmark plan premium amount. We are continuing to follow up on this issue.

Minimum Essential Coverage and Shared Responsibility Payment Requirements

As of March 5, 2015, the IRS received more than 42.8 million tax returns reporting that all members of the taxpayer's family maintained minimum essential coverage as required. The IRS received more than 6.2 million tax returns with a Form 8965 attached indicating that at least one taxpayer on the tax return is exempt from the minimum essential coverage requirement. Also, more than 3.7 million tax returns reported shared responsibility payments totaling more than \$655 million for not maintaining required coverage.⁸

Evaluation of key tax provisions affected by Tax Year 2014 tax law changes

We are continuing to assess the accuracy of the IRS's processing of individual tax returns affected by the following eight key extended tax provisions. We will provide the final results of our assessment in our 2015 Filing Season report that will be issued later this year:

- ***Educator Expense Deduction*** – Individuals in the teaching profession are allowed to deduct up to \$250 (\$500 if filing jointly and both are teachers) for qualified educator expenses.
- ***Tuition and Fees Deduction*** – Individuals can take a deduction for tuition and other qualified educational expenses. For Tax Year 2014, the deduction is limited to \$4,000 if the taxpayer's modified adjusted gross income is \$65,000 or less (\$130,000 if married filing jointly) or \$2,000 if it is greater than \$65,000 (\$130,000) but not above \$80,000 (\$160,000). The deduction cannot be claimed if the modified adjusted gross income is above \$80,000 (\$160,000).
- ***Nonbusiness Energy Property Credit*** – Individuals can take a tax credit of up to \$500 for qualified energy efficiency improvements or residential energy property costs. However, the credit must be reduced by any nonbusiness energy property tax credits taken in prior tax years beginning with Tax Year 2006.
- ***State and Local General Sales Taxes Deduction*** – Individuals taking itemized deductions can choose to deduct State and local income or sales taxes as part of their itemized deductions. This is particularly helpful to taxpayers living in States such as Florida or Texas that have no State income tax.
- ***Mortgage Insurance Premium Deduction*** – Individuals can take an itemized deduction for qualified mortgage insurance premiums in connection with home loans for a first or

⁸ An additional 13,154 tax returns reported shared responsibility payments of more than \$1.6 million and also indicated on their tax return that they maintained minimum essential coverage.



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second home. The deduction is limited if a person's adjusted gross income exceeds \$100,000 (\$50,000 if married filing separately). The deduction cannot be claimed if the adjusted gross income exceeds \$109,000 (\$54,500 if married filing separately).

- ***Exclusion From Gross Income – Discharge of Indebtedness on Principal Residence*** – Individuals can exclude canceled debt from income if it is qualified principal residence indebtedness. Qualified principal residence indebtedness is any mortgage taken out to buy, build, or substantially improve the individual's main home. The maximum exclusion is \$2 million (\$1 million if married filing separately).
- ***Tax-Free Distributions From Individual Retirement Plans for Charitable Purposes*** – Individuals age 70½ or older can make tax-free distributions up to \$100,000 per year from individual retirement arrangements to an eligible charity. To qualify, the funds must be transferred directly by an individual retirement arrangement trustee to the eligible charity.
- ***Increased Expensing for Section 179 Property in Lieu of Depreciation*** – Individuals can continue to elect to expense Section 179 property up to a maximum of \$500,000. However, this limit must be reduced by the cost of Section 179 property placed in service during the tax year that exceeds \$2 million.

The number of paid tax return preparers who file tax returns claiming the Earned Income Tax Credit (EITC) without the due diligence checklist continues to decline

The number of paid tax return preparers who file tax returns claiming the EITC without attaching a completed Form 8867, *Paid Preparer's Earned Income Credit Checklist*, has continued to decline. Figure 4 shows the number of paid tax return preparers we identified as not in compliance with the due diligence rules during the 2013 through 2015 Filing Seasons.



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Figure 4: Comparison of Paid Tax Return Preparer Noncompliance With Form 8867 Requirements for the 2013 Through 2015 Filing Seasons (as of March each year)⁹

	2013 ¹⁰	2014	2015
Noncompliant Preparers	80,585	9,531	6,858
Number of Tax Returns	612,622	22,387	12,375

Source: IRS Wage and Investment Division research and analysis for the 2013 Filing Season. TIGTA analysis for the 2014 and 2015 Filing Seasons.

Beginning with the 2012 Filing Season, paid tax return preparers who prepare a tax return claiming the EITC must include Form 8867 with the tax return or face a \$500 due diligence penalty for each return they submit without it. Since enactment of the Form 8867 requirement and the related due diligence penalty, the IRS has worked to educate preparers about the requirement. In addition, the IRS has worked with tax return preparation software developers to include requirements in their software applications that will assist tax return preparers in being compliant with the Form 8867 requirement.

The IRS issued penalty letters to 225 tax return preparers who had received a warning letter at the conclusion of the 2013 Filing Season and who filed 10 or more tax returns claiming the EITC during the 2014 Filing Season. These 225 tax return preparers prepared 5,729 tax returns claiming more than \$18.7 million in EITCs. Proposed penalties for these 225 preparers total nearly \$2.9 million. Tax return preparers had 30 calendar days to respond to the penalty letter and request an Appeals hearing. The IRS is currently in various stages of reviewing and analyzing the responses to the penalty proposals. According to the IRS, as of March 16, 2015, \$151,500 penalties had been assessed.

We are currently assessing the effectiveness of the due diligence penalty as a deterrent to noncompliance, and we will provide our results in our final report later this year.

⁹ The 2013 Filing Season is as of the week ending March 7, 2013; the 2014 Filing Season is as of the week ending March 6, 2014; and the 2015 Filing Season is as of the week ending March 5, 2015.

¹⁰ According to the IRS, the increase in the number of noncompliant tax return preparers during the 2013 Filing Season was due in part to errors in the software used to prepare tax returns.



Detecting and Preventing Tax Refund Fraud

As of March 7, 2015, the IRS reported that it identified 36,674 tax returns with more than \$172.9 million claimed in fraudulent refunds and prevented the issuance of \$132.8 million (76.8 percent) of those refunds. Figure 5 shows the number of fraudulent tax returns identified by the IRS for Processing Years 2012 through 2014 as well as the refund amounts that were claimed and stopped.

Figure 5: Fraudulent Returns and Refunds Identified and Stopped in Processing Years 2012 Through 2014

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refunds Identified	Amount of Fraudulent Refunds Stopped
2012	3,422,505	3,110,788	\$20,721,203,369	\$19,247,812,922
2013	2,556,935	2,360,180	\$16,456,632,993	\$15,690,434,978
2014	2,180,613	2,066,394	\$15,724,424,102	\$15,209,859,119

Source: IRS fraudulent tax return statistics for Processing Years 2012 through 2014.

The decrease in the number of fraudulent tax refunds the IRS detects and stops is attributable to expanded IRS processes to prevent fraudulent tax returns from entering the tax processing system. Specifically, the IRS continues to expand its efforts to prevent fraudulent tax returns from entering the tax processing system (*i.e.*, rejecting e-file tax returns and preventing paper tax returns from posting). For example, as of January 2015, the IRS had locked approximately 26.3 million taxpayer accounts of deceased individuals. The locking of a tax account results in the rejection of an e-filed tax return and prevention of a paper tax return from posting to the Master File if the Social Security Number associated with the locked tax account is used to file a tax return. According to the IRS, as of March 5, 2015, it has rejected approximately 37,000 fraudulent e-filed tax returns and stopped approximately 10,000 paper tax returns from posting to the Master File.

In addition, the IRS developed and implemented a clustering filter tool during the 2013 Filing Season. This tool was developed in response to TIGTA's continued identification of large volumes of undetected potentially fraudulent tax returns with tax refunds issued to the same address or deposited into the same bank account. The clustering filter tool groups tax returns based on characteristics that include the address, ZIP Code, and/or bank routing numbers. For the tax returns identified, the IRS applies a set of business rules in an attempt to ensure that legitimate taxpayers are not included. Tax returns identified are held from processing until the IRS can verify the taxpayer's identity. As of March 19, 2015, the IRS reports that, using this



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tool, it identified 150,240 tax returns and prevented the issuance of approximately \$374.6 million in fraudulent tax refunds.

Detection of tax returns involving identity theft

The IRS continues to make significant improvements to its process to detect identity theft. For example, it expanded the number of identity theft filters it uses to identify potentially fraudulent tax returns and prevent the issuance of fraudulent tax refunds from 114 filters during the 2014 Filing Season to 196 filters this year. The identity theft filters incorporate criteria based on characteristics of confirmed identity theft tax returns. These characteristics include amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, and filing history.

Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. The IRS attempts to contact the individual who filed the tax return and, if the individual's identity cannot be confirmed, the IRS removes the tax return from processing. This prevents the issuance of many fraudulent tax refunds. As of February 28, 2015, the IRS reported that it identified and confirmed 16,523 fraudulent tax returns and prevented the issuance of nearly \$32.2 million in fraudulent tax refunds as a result of the identity theft filters.

Figure 6 shows the number of identity theft tax returns the IRS identified and confirmed as fraudulent in Processing Years 2013 through 2015.

Figure 6: Identity Theft Tax Returns Confirmed as Fraudulent in Processing Years 2013 Through 2015 (as of February 28, 2015)

Processing Year	Number of Identity Theft Returns
2013	85,385
2014	28,076
2015	16,523

Source: IRS fraudulent tax return statistics for Processing Years 2013 through 2015 as of February 28, 2015.

In an effort to further reduce the issuance of fraudulent tax refunds, the IRS began limiting the number of direct deposit refunds that can be sent to one bank account to three. The IRS will convert the fourth and subsequent direct deposit refund requests to a bank account to a paper refund check and mail the check to the taxpayer's address of record. As mentioned earlier, we are conducting a separate review of the IRS's implementation of the direct deposit refund limits and anticipate issuing our report later this year.



Screening of prisoner tax returns

As of March 7, 2015, the IRS reports that it identified 26,797 potentially fraudulent tax returns filed by prisoners for screening. Figure 7 shows the number of prisoner tax returns identified for screening in Processing Years 2013 through 2015.

Figure 7: Prisoner Tax Returns Identified for Screening in Processing Years 2013 Through 2015 (as of March 7, 2015)

Processing Year	Number of Prisoner Tax Returns Identified for Screening
2013	43,684
2014	36,801
2015	26,797

Source: IRS fraudulent tax return statistics for Processing Years 2013 through 2015 as of March 7, 2015.

To combat the continuing problem of refund fraud associated with tax returns filed using prisoner Social Security Numbers, the IRS compiles a list of prisoners (the Prisoner File) received from the Federal Bureau of Prisons and State Departments of Corrections. Various IRS offices and functions use the Prisoner File in an effort to prevent and detect fraud. The Prisoner File is the cornerstone of the IRS's efforts to prevent the issuance of fraudulent refunds to individuals filing false tax returns using a prisoner Social Security Number.

The Electronic Fraud Detection System is the primary system used by the IRS to identify tax returns filed using prisoner Social Security Numbers. The Electronic Fraud Detection System consists of a series of filters the IRS has designed to evaluate tax returns for potential fraud. Tax returns are processed through the Electronic Fraud Detection System, whereby the primary and secondary Social Security Numbers listed on the tax return are matched to the Prisoner File to determine if the tax return is filed using a prisoner Social Security Number. If the Social Security Number on the tax return matches a prisoner on the Prisoner File and it is a claim for a refund, a prisoner indicator is assigned to the tax return. Tax returns that are assigned a prisoner indicator and meet specific criteria are evaluated to determine if the tax return is fraudulent. This evaluation includes screening and verifying the wage and withholding information reported on the tax return.



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The American Taxpayer Relief Act of 2012,¹¹ enacted in January 2013, expanded the Secretary of the Treasury's authority to share false prisoner tax return information with Federal and State prisons and gave the IRS permanent authority to share such information. This authority was granted because Congress believes the ability of the IRS to share information with prison officials will enable them to take action to punish prisoners for perpetrating fraud and will help stop the abuse of the tax system. In September 2014, we reported that as of June 2014, the IRS has yet to complete needed agreements to begin sharing information related to false prisoner tax return information with Federal and State prison officials. As of March 24, 2015, the IRS has not completed a memorandum of understanding with the Federal Bureau of Prisons. The IRS has completed memorandums of understanding with seven¹² State Departments of Corrections. Thirteen¹³ State Departments of Corrections have elected not to participate in this program.

Providing Customer Service

Taxpayers have several options to choose from when they need assistance from the IRS, including telephone assistance through the toll-free telephone lines, face-to-face assistance at the Taxpayer Assistance Centers (TAC) or Volunteer Program sites, and self-assistance through IRS.gov and various other social media channels (*i.e.*, Twitter, Facebook, and YouTube). As a result of continued budget cuts, the IRS is depending even more on technology-based services and external partners. As such, the IRS is directing taxpayers to the most cost-effective IRS or partner channel available to provide the needed service. This allows the IRS to focus limited toll-free and walk-in resources on customer issues that can be best resolved with person-to-person interaction. By using this approach, the IRS believes that it is able to improve its service to taxpayers by addressing and resolving more complex matters such as assistance to identity theft victims and tax account issues. For example, in an effort to continue to redirect taxpayers to online services, the IRS has expanded its online tools available on IRS.gov:

- ***Interactive Tax Assistant*** – is a tax law resource that takes taxpayers through a series of questions and provides them with responses to basic tax law questions. The IRS reports that from January 1 through February 28, 2015, a total of 660,430 requests had been completed. This is a 168 percent increase over the 245,981 requests that were completed during the same time period last filing season.
- ***Where's My Refund*** – allows taxpayers to check the status of their refunds using the most up-to-date information available to the IRS. The IRS reports that as of March 7, 2015, there have been more than 154.3 million uses of the tool. This is a 24.8 percent increase over the same time last filing season.

¹¹ Pub. L. No. 112-240, 126 Stat. 2313.

¹² Colorado, Illinois, Mississippi, North Dakota, South Carolina, Vermont, and Wyoming.

¹³ Arkansas, Connecticut, Hawaii, Idaho, Iowa, Kansas, Massachusetts, Michigan, Missouri, Montana, New Hampshire, Oregon, and Rhode Island.



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Self-assistance through IRS.gov and social media channelsirs.gov

The IRS continues to offer more self-assistance options that taxpayers can access 24 hours a day, seven days a week. For example, the IRS offers IRS2Go, which is a mobile application that lets taxpayers interact with the IRS using their mobile device to access information and a limited number of IRS tools. In addition, the IRS uses various forms of social media including YouTube, Twitter, Tumblr, and Facebook. As of March 6, 2015, the IRS reports approximately 2.2 million new downloads and updates of its IRS2Go mobile application, for a total of almost 8.8 million since its inception. As of March 9, 2015, there have been nearly 600,000 new views of IRS YouTube videos and a 12 percent increase in Twitter followers, for a total of 102,228 total followers.



Foremost is the IRS's public Internet site, IRS.gov. In the face of a declining budget, the IRS has been actively steering taxpayers to its website as the best source for answers to their tax questions. The IRS reports 198.4 million visits to IRS.gov this filing season as of March 7, 2015.

Some self-assistance tools were not timely updated with the most current tax information

Although the IRS is encouraging taxpayers to use the self-assistance options available on its website, not all of the self-assistance tools were updated with the most current tax information before the filing season began. For example, our review of seven Interactive Tax Assistant applications found incorrect information was provided for two:

- ***“Do I Need to File a Tax Return?”*** – This application provided an incorrect base income for two different filing statuses (single taxpayers age 65 or older and head of household taxpayers age 65 or older).
- ***“Can I Deduct My Mortgage-Related Expenses?”*** – This application provides a link to Form 1099-G, *Certain Government Payments*, but the link should be to Form 1098, *Mortgage Interest Statement*.

Additionally, our review of thirteen IRS tax topics available on IRS.gov as of February 2, 2015, identified three for which the information provided was not current:

- **Tax Topic 155 – *Forms and Publications – How to Order*** – This tax topic indicates that many high-demand forms and publications can be found at local IRS offices, post offices, and libraries. This tax topic had not been updated to reflect the significantly decreased availability of paper forms and publications in these locations. The IRS revised this tax topic on February 19, 2015, to indicate that only basic forms would be available.
- **Tax Topic 457 – *Tuition and Fees Deduction*** – This tax topic referred taxpayers to IRS Publication 970, *Tax Benefits for Education*, for additional information; however,



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Publication 970 for Tax Year 2014 was not yet available. The IRS released Publication 970 to taxpayers on February 12, 2015.

- **Tax Topic 704 – Depreciation** – This tax topic referred taxpayers to IRS Publication 946, *How to Depreciate Property*, for additional information; however, Publication 946 for Tax Year 2014 was not yet available. The IRS released Publication 946 to taxpayers on March 2, 2015.

We also reviewed 10 YouTube videos and identified similar concerns in which information for two of the videos was not current:

- **Direct Deposit** – This video had not been updated to reflect the IRS policy change to allow no more than three direct deposit refunds into one bank account.
- **Gift Tax** – This video referred taxpayers to Publication 559, *Survivors, Executors, and Administrators*, for additional information; however, it was not yet available for Tax Year 2014. The IRS released Publication 559 to taxpayers on March 3, 2015.

We informed the IRS of our concerns with the information contained in some of the self-assistance tools on February 2, 2015. On February 19, 2015, IRS management responded to our concerns, explaining that the Interactive Tax Assistant applications were being corrected and Tax Topic 155 had been updated. The IRS stated that the *Direct Deposit* video was intended to provide introductory information and is not intended to provide all-inclusive information on the subject. For IRS Publications 970, 946, and 559, the IRS stated that they are considered low-usage products, especially early in the filing season, and would be released as soon as possible.

Toll-free telephone assistance

As of March 7, 2015, approximately 45.6 million taxpayers contacted the IRS by calling the various customer service toll-free telephone assistance lines seeking help to understand the tax law and meet their tax obligations.¹⁴ IRS assistors have answered 4.2 million calls and have provided a 38.5 percent Level of Service with a 24.6 minute Average Speed of Answer. The Level of Service for the 2014 Filing Season was 74.7 percent. As a result of the budget cuts, the IRS forecasted a 40.7 percent Level of Service for the 2015 Filing Season. Figure 8 shows a comparison of IRS toll-free telephone statistics through March 7, 2015, for Fiscal Years 2012 through 2015.

¹⁴ The IRS refers to the suite of 29 telephone lines to which taxpayers can make calls as “Customer Account Services Toll-Free.”



Figure 8: Toll-Free Filing Season Telephone Statistics for Fiscal Years 2012 Through 2015 as of March 7, 2015

Statistic	Fiscal Year			
	2012	2013	2014	2015
Assistor Calls Answered	8,252,582	8,183,476	6,038,861	4,213,245
Level of Service	66.8%	67.9%	74.7%	38.5%
Average Speed of Answer (Minutes)	15.9	14.1	11.7	24.6

Source: IRS management information reports as of March 7, 2015. TIGTA converted the Average Speed of Answer in the reports from seconds to minutes.

Face-to-face assistance at the TACs

Each year, many taxpayers seek assistance from one of the IRS's 382 walk-in offices, called TACs. However, the IRS estimates that the number of taxpayers it will assist at its TACs will decrease this fiscal year. The IRS assisted more than 5.5 million taxpayers in Fiscal Year 2014 and plans to assist 5.3 million taxpayers in Fiscal Year 2015, which is a nearly 4 percent decrease from Fiscal Year 2014.

The IRS indicated that budget cuts and its strategy of not offering services at TACs that can be obtained through other service channels, such as the IRS's website, result in the reduction of the number of taxpayers the IRS plans to assist at the TACs. Figure 9 shows the number of contacts by product line at the TACs for Fiscal Years 2012 through 2015.



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Figure 9: Contacts for Fiscal Years 2012 Through 2015 (in millions)

Contacts/Product Lines	Fiscal Year			
	2012	2013	2014	2015 Projections
Tax Accounts Contacts	4.3	4.4	3.6	3.6
Forms Contacts	0.6	0.5	0.4	0.3
Other Contacts ¹⁵	1.7	1.5	1.4	1.3
Tax Law Contacts	0.2	0.2	0.1	0.1
Totals	6.8	6.5	5.5	5.3

Source: IRS management information reports. Totals shown are rounded.

In addition, the IRS also offers Virtual Service Delivery, which integrates video and audio technology to allow taxpayers to see and hear an assistor located at a remote TAC, giving the taxpayers “virtual face-to-face interactions” with assistors. Taxpayers can use this technology to obtain many of the services available at TACs. The goals for Virtual Service Delivery are to enhance the use of IRS resources, optimize staffing, and balance workload. For the 2015 Filing Season, the IRS is offering Virtual Service Delivery at 34 locations, including 24 TACs and 10 Volunteer Program sites. The IRS reports that as of February 28, 2015, a total of 7,493 taxpayers used this service.

Availability of tax forms and publications

Each year, the IRS makes a number of paper tax forms, instructions, and publications available to taxpayers at locations such as IRS TACs, public libraries, and local post offices. During the 2015 Filing Season, the IRS indicated that taxpayers could obtain 47 commonly used paper tax forms, instructions, and publications from an IRS TAC. In addition, the IRS provided 100 self-service kiosks at 37 TACs that taxpayers can use to print needed tax forms and other information. The IRS also shipped approximately 29.3 million commonly used paper tax forms, instructions, and publications to 9,211 non-IRS locations across the country, such as public libraries and post offices.

¹⁵ Other Contacts includes but is not limited to: Form 2063, *U.S. Departing Alien Income Tax Statement*, date-stamping tax returns brought in by taxpayers, screening taxpayers for eligibility of service, scheduling appointments, and helping taxpayers with general information such as addresses and directions to other IRS offices or other Federal Government agencies.



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Tax preparation assistance at Volunteer Program sites

The Volunteer Program continues to play an important role in the IRS's efforts to improve taxpayer service and facilitate participation in the tax system. It provides no-cost Federal tax return preparation and e-filing to underserved taxpayer segments, including low-income, elderly, disabled, rural, Native American, and limited-English-proficient taxpayers. As of March 9, 2015, almost 1.8 million tax returns have been prepared at the 10,398 Volunteer Program sites nationwide. Figure 10 shows the number of tax returns prepared by volunteers from Fiscal Years 2012 through 2014.

**Figure 10: Volunteer Program Statistics
for Fiscal Years 2012 Through 2014**

	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Percentage Change (Fiscal Year 2013 to Fiscal Year 2014)
Tax Returns	3,264,997	3,406,182	3,646,562	7.1%
Volunteers	98,978	91,820	93,082	1.4%
Sites	13,143 ¹⁶	13,081	12,319	-5.8%

Source: IRS management information system containing Fiscal Years 2012 through 2014 information. Percentages are rounded.

Accounts Management function over-aged correspondence inventory remains high

The over-aged correspondence inventory rose from nearly 606,000 at the end of Processing Year 2011 to nearly 1.17 million at the end of Processing Year 2014, representing an increase of approximately 93 percent.¹⁷ Correspondence inventory includes but is not limited to amended tax returns, responses to taxpayer notices, identity theft cases, and applications for Individual Taxpayer Identification Numbers. Correspondence is considered over-aged when it has been in inventory for more than 45 calendar days. Figure 11 provides a comparison of the correspondence inventory for Processing Years 2011 through 2014.

¹⁶ The Tax Returns and Sites totals do not include tax returns prepared using Facilitated Self-Assistance kiosks.

¹⁷ Numbers have been rounded. The percentage of change is based on the actual inventory volumes as of the end of Processing Years 2011 and 2014. See Figure 11 for actual inventory volumes.



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Figure 11: Year-to-Date Comparisons of Correspondence Inventory as of the End of Processing Years 2011 Through 2014

	2011	2012	2013	2014
Total Inventory	2,013,556	2,401,845	2,580,527	2,542,125
Over-Aged Volume	605,739	592,536	1,187,255	1,168,181
Percentage Over-Aged	30.1%	24.7%	46.0%	46.0%

Source: IRS Accounts Management Inventory Report – Inventory Age Reports.

According to IRS management, the decrease in available full-time equivalents and the consistent receipt of correspondence has led to increasing over-aged inventories. IRS management stated that their focus in Fiscal Year 2015 has been to reduce correspondence inventories at the expense of taxpayer assistance on the toll-free telephone lines.

IRS management also indicated that in addition to decreasing resources, the Federal Government shutdown in October 2013 and the shift of resources to the identity theft program negatively affected over-aged inventories and resulted in a ripple effect that may take several years to fully recover from. We have recently initiated a separate review to assess the IRS's processing of correspondence, and we anticipate issuing our report early next fiscal year.



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Operations, Wage and Investment Division SE:W
Deputy Commissioner, Support, Wage and Investment Division SE:W
Director, Business Modernization Office, Wage and Investment Division SE:W:BMO
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
SE:W:CAR
Director, Strategy and Finance, Wage and Investment Division SE:W:S
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Audit Liaison: Chief, Program Evaluation and Improvement, Wage and Investment Division
SE:W:S:PEI



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Appendix IV

Interactive Self-Help Tools and YouTube Videos

Interactive Self-Help Tools Reviewed	IRS YouTube Videos Reviewed
<ul style="list-style-type: none"> • Do I Need to File a Tax Return? • How Much Can I Deduct for Each Exemption I Claim? • How Much Is My Standard Deduction? • Can I Deduct My Mortgage Related Expenses? • Can I Deduct My Medical and Dental Expenses? • Am I Eligible to Claim an Education Credit? • Do I Have Cancellation of Debt Income on My Personal Residence? • Earned Income Tax Credit (EITC) Assistant • Sales Tax Deduction Calculator • Withholding Calculator • Where's My Refund? 	<ul style="list-style-type: none"> • Medical and Dental Expenses • Do I Have to File a Tax Return? • Gift Tax • IRS Withholding Calculator • Standard Versus Itemized Deductions • Earned Income Tax Credit • Direct Deposit • How to Get 1040 Forms • How to Use the Where's My Refund? Tool • When Will I Get My Refund?

Source: www.YouTube.com and www.IRS.gov.



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Appendix V

Glossary of Terms

Term	Definition
Adjusted Gross Income	Gross income minus adjustments to income.
Average Speed of Answer	The average number of seconds taxpayers waited in the assistor queue (on hold) before receiving services.
Business Master File	The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.
Customer Account Data Engine 2	Provides state-of-the-art individual taxpayer account processing and data-centric technologies to improve service to taxpayers and enhance tax administration.
Earned Income Tax Credit	A refundable Federal tax credit for low-income working individuals and families.
Exchange Periodic Data	The ACA requires Exchanges to provide the IRS with information regarding individuals who are enrolled by the Exchange on a monthly basis. These data are referred to as EPD.
Facilitated Self-Assistance	An initiative to provide self-help assistance kiosks at the TACs. The kiosks can be used by taxpayers to access IRS.gov to file their tax returns, print tax forms and publications, or conduct tax research.
Filing Season	The period from January 1 through mid-April when most individual income tax returns are filed.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Free File	A free Federal tax preparation and e-filing program for eligible taxpayers developed through a partnership between the IRS and the Free File Alliance, LLC. The Alliance is a group of private sector tax software companies.
Full-Time Equivalents	A measure of labor hours in which one FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. For Fiscal Year 2013, one FTE was equal to 2,088 staff hours. For Fiscal Year 2014, one FTE was equal to 2,088 staff hours.



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Term	Definition
Health Insurance Exchange	The Health Insurance Exchange – also known as the Health Insurance Marketplace – is the place for people without health insurance to find information about health insurance options and also purchase health insurance.
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Individual Return Transaction File	A database the IRS maintains that contains information on the individual returns it receives.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer’s account records.
Level of Service	The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS toll-free telephone lines.
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
Minimum Essential Coverage	Health insurance coverage that contains essential health benefits including emergency services, maternity and newborn care, and preventive and wellness services. Minimum essential coverage also includes doctor visits, hospitalization, mental health services, and prescription drugs.
Premium Tax Credit	A refundable tax credit created by the ACA to assist eligible taxpayers with paying their health insurance premiums.
Processing Year	The calendar year in which the return or document is processed by the IRS.
Shared Responsibility Payment	Beginning with the 2015 Filing Season, if a taxpayer or anyone in the taxpayer’s tax household does not have minimum essential coverage, and does not qualify for a coverage exemption, the taxpayer will need to make a shared responsibility payment when filing his or her Federal income tax return.
Submission Processing Site	The data processing arm of the IRS. The sites process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Tax Year	The 12-month period for which tax is calculated. For most individual taxpayers, the tax year is synonymous with the calendar year.



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Term	Definition
Taxpayer Assistance Centers	Walk-in sites where taxpayers can obtain answers to both account and tax law questions as well as receive assistance in preparing their tax returns.
Volunteer Program	Includes the Volunteer Income Tax Assistance Program, including the Volunteer Income Tax Assistance Grant Program and the Tax Counseling for the Elderly Program. The Volunteer Program provides free tax assistance to persons with low to moderate income (generally \$53,000 and below), the elderly, persons with disabilities, rural persons, Native Americans, and persons with limited English proficiency.