
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Interim Results of the 2017 Filing Season

March 31, 2017

Reference Number: 2017-40-028

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HIGHLIGHTS

INTERIM RESULTS OF THE 2017 FILING SEASON

Highlights

Final Report issued on March 31, 2017

Highlights of Reference Number: 2017-40-028 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 2017 Filing Season. TIGTA plans to issue the final results of our analysis of the 2017 Filing Season in September 2017.

WHAT TIGTA FOUND

In preparation for the 2017 Filing Season, the IRS made significant changes to its processes and procedures to address legislative requirements, including the program and integrity provisions of the Protecting Americans From Tax Hikes Act of 2015. The IRS began accepting and processing individual tax returns on January 23, 2017, as scheduled.

As of March 3, 2017, the IRS received approximately 61 million tax returns – 57.4 million (94 percent) were electronically filed (e-filed) and 3.6 million (6 percent) were filed on paper. The IRS has issued 49.4 million refunds totaling more than \$148.8 billion. In addition, as of March 2, 2017, the IRS processed 1.7 million tax returns that reported nearly \$6.4 billion in Premium Tax Credits that were either received in advance or claimed at the time of filing. Approximately 1.8 million taxpayers reported shared responsibility payments for a decrease of 33.3 percent from the prior year. However, the amount of shared responsibility payments

reported increased 20 percent over the prior year to \$1.2 billion. It should be noted the amount of the shared responsibility payment increases each year.

The IRS continues to expand its efforts to detect tax refund fraud. As of March 4, 2017, the IRS reports that it identified 30,674 tax returns with \$961 million claimed in fraudulent refunds and prevented the issuance of \$918.6 million (95.6 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 10,954 fraudulent e-filed tax returns as of February 28, 2017, and 2,317 paper-filed tax returns as of March 16, 2017. The IRS also identified and confirmed 14,068 fraudulent tax returns involving identity theft as of March 2, 2017, and identified 17,227 prisoner tax returns for screening as of March 4, 2017.

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. In addition, as of March 2, 2017, approximately 27.4 million total attempts and 19 million net attempts were made by taxpayers to contact the IRS by calling the various customer service toll-free telephone assistance lines. The IRS reports that approximately 10.4 million calls were answered with automation. IRS assistors have answered nearly 4.7 million calls and provided a 76.2 percent Level of Service with a 7.1 minute Average Speed of Answer.

Finally, during Fiscal Year 2017, the IRS plans to assist approximately 3.4 million taxpayers through face-to-face contact at the Taxpayer Assistance Centers, which is a 23.6 percent decrease from Fiscal Year 2016.

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, 2017

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Interim Results of the 2017 Filing Season
(Audit # 201740004)

This report presents selected information related to the Internal Revenue Service's (IRS) 2017 Filing Season results. As part of our Fiscal Year 2017 Annual Audit Plan, we are conducting several ongoing audits that are related to specific issues in this report. 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, Assistant Inspector General for Audit (Returns Processing and Account Services).



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Abbreviations

ACA	Affordable Care Act
ACTC	Additional Child Tax Credit
AOTC	American Opportunity Tax Credit
ATIN	Adoption Taxpayer Identification Number
APTC	Advance Premium Tax Credit
CTC	Child Tax Credit
e-file(d), e-filing	Electronically File(d); Electronic Filing
EIN	Employer Identification Number
EITC	Earned Income Tax Credit
HCTC	Health Coverage Tax Credit
IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
PATH Act	Protecting Americans From Tax Hikes Act of 2015
PTC	Premium Tax Credit
RRP	Return Review Program
SRP	Shared Responsibility Payment
SSN	Social Security Number
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration



Interim Results of the 2017 Filing Season

Background

The annual tax return filing season is a critical time for the Internal Revenue Service (IRS) as this 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 2017, the IRS expects to receive approximately 152 million individual income tax returns (approximately 17 million paper filed and 134.3 million electronically filed (e-filed)). The IRS plans to process individual income tax returns at five Wage and Investment Division Submission Processing sites¹ during the 2017 Filing Season. In addition, the IRS expects to provide assistance to millions of taxpayers via the telephone, e-mail, website, social media, and face-to-face assistance.

One of the continuing challenges the IRS faces 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 based on changes in the tax law. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, or result in incorrect taxpayer notices.

Tax law changes affecting the 2017 Filing Season

- ***The Patient Protection and Affordable Care Act (ACA)***² – Enacted March 23, 2010, provides incentives and tax breaks to individuals and small businesses to offset health care expenses. It also imposes Shared Responsibility Payments (SRP), administered through the tax code, for individuals and businesses that do not obtain health care coverage for themselves or their employees. For the 2017 Filing Season, the IRS will continue its efforts to verify claims for the Premium Tax Credit (PTC).³ Taxpayers who

¹ See Appendix V for a glossary of terms. IRS Submission Processing sites in Fresno, California; Kansas City, Missouri; and Austin, Texas, will process paper-filed and e-filed tax returns. Sites in Andover, Massachusetts, and Philadelphia, Pennsylvania, will process only e-filed tax returns.

² 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.

³ A refundable tax credit to assist individuals and families in purchasing health insurance coverage through an Affordable Insurance Exchange.



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purchase insurance through an Exchange⁴ are required to file a tax return and attach Form 8962, *Premium Tax Credit (PTC)*, to claim the PTC and reconcile any Advance PTC (APTC) payments⁵ that were made to an insurer on their behalf.

The ACA also requires individuals to report on their compliance to maintain minimum essential health insurance coverage.⁶ Individuals who do not maintain minimum essential coverage or qualify for an exemption from the requirement must make an SRP. On January 20, 2017, the President issued the *Executive Order Minimizing the Economic Burden of the Patient Protection and Affordable Care Act Pending Appeal* directing Federal agencies to exercise authority and discretion available to them to reduce potential burden on taxpayers in complying with ACA requirements.

- ***The Trade Preferences Extension Act of 2015***⁷ – Enacted June 29, 2015, prohibits individuals claiming the foreign earned income exclusion or housing deduction from receiving the refundable Additional Child Tax Credit (ACTC).⁸ In addition, this Act retroactively extended the Health Coverage Tax Credit (HCTC) for Tax Year 2014 and continued the credit through Tax Year 2019.⁹ The HCTC is a tax credit that pays a portion of qualified health insurance premiums for eligible individuals and their families.

Beginning with Calendar Year 2016, eligible individuals can choose to receive the HCTC on a monthly basis. Individuals can have up to 72.5 percent of their qualified health insurance premiums paid in advance. The Treasury Inspector General for Tax Administration (TIGTA) is conducting a separate review to assess the effectiveness of the IRS's implementation of advance HCTC payments.¹⁰ It should be noted that the HCTC is not part of the ACA. However, the legislation contains some important modifications that require coordination of this credit with the PTC under the ACA and other provisions of the ACA.

Finally, this legislation requires that an individual claiming the American Opportunity Tax Credit (AOTC), Lifetime Learning Credit, or the Tuition and Fees Deduction must

⁴ The Exchange is where taxpayers find information about health insurance options, purchase qualified health plans, and, if eligible, obtain help paying premiums and out-of-pocket costs.

⁵ An APTC is paid in advance to a taxpayer's insurance company to help cover the cost of premiums.

⁶ Minimum essential coverage is health insurance coverage that contains essential health benefits including emergency services, maternity and newborn care, preventive and wellness services, doctor visits, hospitalization, mental health services, and prescription drugs.

⁷ Pub. L. No. 114-27.

⁸ The ACTC (the refundable portion of the Child Tax Credit) is used to adjust the individual income tax structure to reflect a family's reduced ability to pay taxes as family size increases.

⁹ The HCTC originally expired at the end of Calendar Year 2013.

¹⁰ TIGTA, Audit Number 201640034, *Implementation of Advance Health Coverage Tax Credit Payments*.



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statement, which is generally on Form 1098-T, *Tuition Statement*, provides the name, address, and Employer Identification Number (EIN) of the educational institution. An exception to the statement requirement is allowed if the taxpayer claiming the benefit has taken certain steps to obtain a statement from the institution. This provision is effective for tax years beginning after June 29, 2015.

- **Consolidated Appropriations Act of 2016**¹¹ – Enacted on December 18, 2015, contains the Protecting Americans From Tax Hikes Act of 2015 (PATH Act), which extended numerous tax provisions that expired at the end of Tax Year 2014. Many of the provisions were permanently extended, while others were extended for either two or five years.

The PATH Act also contains a number of provisions referred to as program integrity provisions intended to reduce fraudulent and improper Earned Income Tax Credit (EITC),¹² Child Tax Credit (CTC),¹³ ACTC, and AOTC¹⁴ payments. The majority of the program integrity provisions were effective January 1, 2016, and affect the processing of Tax Year 2016 returns. Figure 1 provides a description of the integrity provisions included in the PATH Act.

Figure 1: PATH Act Integrity Provisions

Provision	Description	Effective Date
Section 201: Modification of filing dates of returns and statements relating to employee wage information and nonemployee compensation to improve compliance	Modifies the due dates of Forms W-2, <i>Wage and Tax Statement</i> , and documents reporting nonemployee compensation such as Forms 1099-MISC, <i>Miscellaneous Income (Info Only)</i> , to January 31. Also provides additional time for the IRS to review refund claims based on the EITC and the ACTC in order to reduce fraud and improper payments. No refund based on claims for the EITC or the ACTC shall be made to a taxpayer before February 15.	January 1, 2016 (2017 Filing Season)
Section 203: Requirements for the issuance of Individual	Modifies the period an ITIN will remain active. The provision requires the IRS to deactivate ITINs that are not used on a tax return at least once in the last three tax years. In addition,	December 18, 2015 (2016 Filing Season)

¹¹ Pub. L. No. 114-113 (H.R. 2029).

¹² The EITC is used to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment.

¹³ A tax credit for families with dependent children that is used to reduce the individual income tax burden for families, better recognize the financial responsibilities of raising dependent children, and promote family values.

¹⁴ A partially refundable Federal tax credit used to help parents and college students offset the costs of college.



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Taxpayer Identification Numbers (ITIN)	starting on January 1, 2017, requires the IRS to deactivate ITINs issued prior to January 1, 2013.	
Sections 204 - 206: Prevention of retroactive claims	Prevents retroactive claims of the EITC after issuance of a Social Security Number (SSN) and prevents retroactive claims of the CTC/ACTC and the AOTC after the issuance of an SSN, ITIN, or Adoption Taxpayer Identification Number (ATIN). Taxpayers cannot file an amended tax return or original tax return for prior years to claim credits if the SSN, ITIN, or ATIN were not issued prior to the return due date.	December 18, 2015 (2016 Filing Season)
Section 207: Procedures to reduce improper claims	Expands the paid-preparer due diligence requirements with respect to the EITC and the associated \$510 penalty for failure to comply, to cover returns claiming the CTC/ACTC and the AOTC.	January 1, 2016 (2017 Filing Season)
Section 208: Restrictions on taxpayers who improperly claimed credits in prior year	Expands the rules under current law which require individuals to recertify eligibility for the EITC claim after disallowance and bars individuals from claiming the EITC for 10 years if the credit was claimed fraudulently and for two years if they recklessly or intentionally disregarded the rules, to apply to the CTC/ACTC and the AOTC. Adds math error authority, which permits the IRS to disallow improper credits without a formal audit if the taxpayer claims the credit in a period during which he or she is barred.	January 1, 2016 (2017 Filing Season)
Section 211: EIN required for the AOTC	Requires that the individual taxpayer provide the EIN of the educational institution to which qualified tuition and related expenses were paid with respect to that individual in order to claim the AOTC.	January 1, 2016 (2017 Filing Season)

Source: *The PATH Act.*

Due to the extensive nature of the PATH Act integrity provisions affecting the 2017 Filing Season, we are conducting a series of audits to evaluate the IRS's implementation of these provisions.¹⁵

¹⁵ TIGTA, Audit Number 201640034, *Implementation of Advance Health Coverage Tax Credit Payments*; TIGTA, Audit Number 201640031, *Implementation of Refundable Credit Integrity Provisions*; TIGTA, Audit Number



Interim Results of the 2017 Filing Season

The interim 2017 Filing Season results are being presented as of several dates between February 8, 2017, and March 16, 2017, depending on when the data were available. Later this year, we will issue our 2017 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.



Interim Results of the 2017 Filing Season

Results of Review

Processing Tax Returns

In preparation for the 2017 Filing Season, the IRS made significant changes to its processes and procedures to address legislative requirements. The IRS began accepting and processing individual tax returns on January 23, 2017, as scheduled. As of March 3, 2017, the IRS received approximately 61 million tax returns. Figure 2 presents comparative filing season statistics as of March 3, 2017.

**Figure 2: Comparative Filing Season Statistics
(as of March 3, 2017)**

Cumulative Filing Season Data	2016 Actual	2017 Actual	% Change
Individual Income Tax Returns			
Total Returns Received (000s)	66,723	61,063	-8.48%
Paper Returns Received (000s)	4,087	3,628	-11.23%
E-Filed Returns Received (000s)	62,636	57,435	-8.30%
Practitioner Prepared (000s)	32,600	29,293	-10.14%
Home Computer (000s)	30,036	28,142	-6.31%
Free File (000s) <i>(also in the Home Computer total)</i>	1,355	1,169	-13.73%
Fillable Forms (000s) <i>(also in the Home Computer total)</i>	125	106	-15.20%
Percentage of Returns E-Filed	93.9%	94.1%	0.20%
Refunds			
Total Number Issued (000s)	53,508	49,352	-7.77%
Total Dollars (in millions)	\$160,171	\$148,832	-7.08%
Average Dollars	\$2,993	\$3,016	0.77%
Total Number of Direct Deposits (000s)	48,309	44,822	-7.22%
Total Direct Deposit Dollars (in millions)	\$150,565	\$140,661	-6.58%

Source: Multiple 2017 Filing Season reports. Totals and percentages shown are rounded. The 2016 Filing Season figures are through March 4, 2016, and the 2017 Filing Season figures are through March 3, 2017.



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According to the IRS, the decline in the number of tax returns received compared to this time last year is the result of fewer processing days. For example, the 2016 Filing Season opened on January 19, 2016, four days earlier than the opening of tax return processing for the 2017 Filing Season.

Use of the savings bond and split refund options

Through March 2, 2017, a total of 15,297 individuals requested to convert refunds totaling \$5.7 million into savings bonds. Additionally, 190,843 taxpayers chose to split tax refunds totaling \$928 million between two or three different checking or savings accounts. Figure 3 shows a comparison of taxpayers' use of the split refund and savings bond options for Processing Years 2016 and 2017 as of March 2, 2017.

**Figure 3: Use of Savings Bonds and Split Refunds
for Processing Years 2016 and 2017**

Savings Bonds	2016 Actual	2017 Actual
Total Returns	13,936	15,297
Total Refund Dollars to Bonds	\$5.3 million	\$5.7 million
Split Refunds		
Total Returns	306,193	190,843
Total Refund Dollars Split	\$1.5 billion	\$928.4 million

Source: TIGTA analysis of the IRS Individual Return Transaction File as of March 3, 2016, and March 2, 2017. Totals are rounded.

Implementation of Affordable Care Act Provisions

As of March 2, 2017, the IRS processed 1.7 million tax returns that reported nearly \$6.4 billion in the PTCs that were either received in advance or claimed at the time of filing. Figure 4 provides the results from our analysis of tax returns filed and processed as of March 2, 2017.

**Figure 4: PTC Statistics
(as of March 2, 2017)**

Total Tax Returns With a PTC	1,668,270
Total PTC Amount (includes the APTC and the PTC)	\$6.4 billion
Total APTC Amount	\$6.1 billion
Total PTC Claimed at Filing in Excess of the APTC	\$299.5 million



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Tax Returns on Which the PTC Equals the APTC Received

Tax Returns	62,667
Total PTC Amount	\$307.8 million

Tax Returns With an Additional PTC Amount
(taxpayer is entitled to more PTC than what was received in the APTC)

Total Tax Returns	649,293
Total PTC Amount (includes the APTC and the PTC)	\$2.7 billion
<i>Total APTC Amount</i>	\$2.4 billion
<i>Total PTC Claimed at Filing in Excess of the APTC</i>	\$299.5 million

Tax Returns With Excess APTC Payments
(taxpayer receives more APTC than the PTC entitled and has to repay)

Total Tax Returns	956,310
Total PTC Amount	\$2.6 billion
Total APTC Amount	\$3.4 billion
Total APTC Reported in Excess of the PTC	\$829.1 million
<i>Total APTC Above the Repayment Limit (not repaid)</i>	\$264.6 million
<i>Total APTC Below the Repayment Limit (repaid)</i>	\$564.5 million

Source: TIGTA analysis of individual tax returns processed as of March 2, 2017.

Minimum essential coverage and SRP requirements

As of March 2, 2017, the IRS received approximately 44.1 million tax returns reporting that all members of the taxpayer’s family maintained minimum essential coverage as required by the ACA. Additionally, nearly 5.3 million taxpayers filed a return with a Form 8965, *Health Coverage Exemptions*, attached indicating that at least one taxpayer on the tax return is exempt from the minimum essential coverage requirement. Also, approximately 1.8 million taxpayers self-reported SRPs totaling \$1.2 billion for not maintaining required coverage. Figure 5 shows a comparison of taxpayers reporting maintaining minimum essential coverage and self-reported SRPs for Processing Years 2016 and 2017 as of March 2, 2017.



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Figure 5: Minimum Essential Coverage and SRPs – Processing Years 2016 and 2017 (as of March 2, 2017)

	Processing Year 2016	Processing Year 2017	% Change
Returns Reporting All Family Members Have Minimum Essential Coverage	47 million	44.1 million	-6.2%
Returns Claiming an Exemption From Minimum Essential Coverage	6 million	5.3 million	-11.7%
Returns Reporting an SRP	2.7 million	1.8 million	-33.3%
Amount of the SRP	\$1 billion	\$1.2 billion	20.0% ¹⁶

Source: TIGTA analysis of individual tax returns processed as of March 2, 2017, and the IRS's ACA Filing Season Statistics Report Filing Season 2017, Cycle #9.

Processes established to identify noncompliant filers and assess SRP requirements were changed in response to an Executive Order

Beginning with the 2017 Filing Season, the IRS developed processes to identify taxpayers at the time tax returns are processed who did not report on their compliance with the minimum essential coverage and SRP requirements, *i.e.*, did not report coverage, claim an exemption, or pay the SRP. The IRS refers to these returns as a “silent return”. The IRS planned to reject e-filed silent returns back to the taxpayer notifying them of the requirement to report minimum essential coverage, submit Form 8965 to claim an exemption, or pay the SRP. Paper-filed tax returns would be identified for correspondence with the taxpayer. Taxpayers who did not respond would be assessed the SRP.

On January 20, 2017, the President issued an Executive Order directing Federal agencies to exercise authority and discretion available to them to reduce potential burden on taxpayers in complying with ACA requirements.¹⁷ In response to the Executive Order, on February 3, 2017,

¹⁶ The SRP dramatically increased from Tax Year 2015 to Tax Year 2016. The family maximum for Tax Year 2015 was \$975 and increased to \$2,085 for Tax Year 2016. However, the maximum SRP is capped at the cost of the national average premium for a bronze level health plan through the Marketplace. For the 2017 Filing Season, \$13,380 is the maximum amount of the SRP for a family with five or more members which is up from the \$12,240 maximum the previous year.

¹⁷ The Executive Order Minimizing the Economic Burden of the Patient Protection and Affordable Care Act Pending Appeal directed Federal agencies to exercise authority and discretion available to them to reduce potential burden on taxpayers.



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the IRS changed its processes and procedures for identifying taxpayers at the time tax returns were filed who failed to report on their compliance with the minimum essential coverage requirements. As a result, the IRS will process all silent e-filed and paper-filed tax returns rather than verifying the taxpayer's compliance before refunds are paid. However, the IRS noted that it will continue to address noncompliance with the minimum essential coverage and SRP requirements as part of its post-processing compliance program as it has done for prior tax years.

Evaluation of Key Tax Provisions Affected by Tax Year 2016 Tax Law Changes

We are in the process of evaluating the IRS's actions to implement key provisions of the PATH Act. We plan to issue our final report later this calendar year. The following present our results to date:

- **Processes to hold refunds that include the EITC and the ACTC until February 15, 2017** – Our analysis of 10.3 million returns with an EITC or ACTC claim processed as of March 2, 2017, with refunds totaling \$51.2 billion found the IRS held refunds as required. These refunds included the EITC totaling \$28.4 billion and the ACTC totaling \$10.3 billion. For those returns that were held, the IRS released returns on or after February 15, 2017, that were not identified for additional review.

The PATH Act also moved the filing date for Forms W-2 and Forms 1099-MISC that report nonemployee compensation to January 31st. This enables the IRS to validate the income used to support EITC and ACTC claims before refunds are issued. The IRS has developed processes to verify income on all tax returns including those with an EITC or ACTC claim. IRS management stated us that all EITC and ACTC claims that have unsupported income will flow through the Return Review Program (RRP) Systemic Verification program.

IRS management indicated that all returns identified as potentially fraudulent will be addressed as part of the IRS's fraud prevention programs. IRS management indicated that the remaining returns with an income discrepancy will be addressed as part of the IRS's overall Questionable Refund Program.¹⁸ Specifically, management stated that these returns will be referred to the Examination or Automated Questionable Credit programs. However, management indicated that only those returns with a refund greater than an established dollar tolerance will be selected for review by the Examination or Automated Questionable Refund programs. Our review of IRS internal guidelines confirms that not all returns that have an income discrepancy are referred to or reviewed

¹⁸ The Questionable Refund Program is a nationwide, multifunctional program designed to identify fraudulent returns, to stop the payment of fraudulent refunds, and to refer identified fraudulent refund schemes to Criminal Investigation field offices.



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by the IRS Examination function. As a result, only those EITC and ACTC claims that contain an income discrepancy and have a refund above the established dollar tolerance will be subject to additional review before the refund is paid. We are conducting a separate review of the effectiveness of the IRS's use of available Forms W-2 and Forms 1099-MISC to verify income on tax returns claiming the EITC or the ACTC. We plan to issue our report later this calendar year.

- **Processes to identify and prevent EITC, CTC, ACTC, and AOTC claims by individuals filing tax returns for years prior to when a Taxpayer Identification Number was issued** – Our review of tax returns filed as of February 8, 2017, found that the IRS did not notify 350 taxpayers that one or more SSNs, ITINs, or ATINs used to claim one of these credits were issued subsequent to the tax year for which their claim was filed. We alerted the IRS of our concerns on February 22, 2017. IRS management indicated that its review of 241 of the 350 returns we identified confirmed that taxpayers are not always being notified when their SSN, ITIN, or ATIN was not timely issued. IRS management indicated that internal guidance has been revised to clarify that employees are to validate returns to the current National Account Profile showing the SSN, ITIN, and ATIN issuance dates. IRS management also indicated that they have requested computer programming changes to address errors identified in processing EITC, CTC, ACTC, and AOTC claims for years prior to when a Taxpayer Identification Number was issued.

In addition, we notified the IRS on March 9, 2017, that we identified an additional 14 prior year tax returns that were incorrectly identified as having an SSN, ITIN, or ATIN that was not timely issued. As a result, these individuals were issued a notice incorrectly informing them that the SSN, ITIN, or ATIN could not be used to claim the EITC, CTC, ACTC, or AOTC. As of March 2, 2017, the IRS has received 270,163 prior tax year returns. As of the date of this report, we have not received the IRS's response to our concerns.

We are conducting a separate review to evaluate the IRS's processing of retroactive EITC, CTC, ACTC, and AOTC claims and plan to issue our report later this calendar year.

- **Processes to identify CTC, ACTC, and AOTC claims filed by individuals with an inactive ITIN** – The IRS was granted authority to systemically disallow CTC, ACTC, and AOTC claims filed by individuals with an inactive ITIN including those that are deactivated or revoked by the IRS.¹⁹ In response, the IRS developed processes to identify tax returns filed with an inactive ITIN. As of March 1, 2017, the IRS has rejected

¹⁹ The IRS revokes an ITIN when it later determines the ITIN should not have been issued or is no longer valid given certain conditions, such as the taxpayer is deceased or has been assigned an SSN.



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195 e-filed returns with an inactive ITIN and identified an additional 88,071 e-filed and paper-filed tax returns for review.²⁰

We are conducting a separate audit on the accuracy of the IRS's deactivation of the ITINs and plan to issue our report later this calendar year.

- **Processes to ensure that tax return preparers are submitting Form 8867, Paid Preparer's Due Diligence Checklist, for all returns with a CTC, ACTC, and AOTC claim** – The IRS revised the Form 8867 to include the expanded due diligence requirements for the CTC, ACTC, and AOTC. Tax return preparers are required to submit this form with each tax return they file with one of these credit claims. In addition, the IRS developed processes to systemically identify e-filed tax returns filed by a preparer that do not contain a Form 8867. The IRS sends the preparer an alert reminding the preparer of the Form 8867 requirement and notifying them that the IRS can impose a \$510 penalty for failure to submit the Form 8867. The IRS reports that as of March 1, 2017, it identified and sent 1,311 notifications to paid preparers informing them about the missing Form 8867 and the new requirement. Our analysis of the 10.7 million tax returns with a CTC, ACTC, or AOTC claim filed by paid preparers as of March 2, 2017, identified 11,119 (0.1 percent) that did not include the Form 8867 as required.
- **Processes to ensure that an educational institution EIN is provided when claiming the AOTC** – The IRS has established processes to identify e-filed AOTC claims when the taxpayer indicates a statement was received from the educational institution and an EIN is not provided. However, IRS management stated that current reporting regulations do not require institutions to provide a statement that would include the institution EIN to all students. *****2*****. IRS management indicated that the IRS is in the process of revising the regulations for institutions to be consistent with the new requirements for claiming education benefits. As of March 2, 2017, the IRS has received nearly 3.9 million returns claiming the AOTC totaling \$3.4 billion.²¹ We are in the process of determining how many of the 3.9 million returns*****2*****.

In addition to the previously mentioned provisions, we are also assessing the accuracy of the IRS's processing of individual tax returns affected by key tax provisions included in other legislation. To date, our assessments have identified:

²⁰ The IRS discontinued use of its e-file reject processes on January 19, 2017. Subsequent to January 19, 2017, all e-filed returns with an inactive ITIN are being identified for additional review.

²¹ Our analysis only includes the refundable portion of the AOTC.



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- **Requirement to have a statement from the educational institution to claim the AOTC, Lifetime Learning Credit, and the Tuition and Fees Deduction** – The IRS has not developed processes to identify education benefit claims at the time tax returns are filed for which the taxpayer did not have the required statement. Similar to identifying claims with the EIN of the educational institution, IRS management cited the inconsistency between institution reporting regulations and the taxpayer’s requirement to have a statement. *****2*****

In addition, IRS management indicated that processes intended to identify other potential AOTC errors will also identify some claims for which the taxpayer does not have the required statement. IRS management also stated that while the PATH Act strengthened the AOTC requirements, it did not provide the IRS with additional authority such as expanded math error authority to address taxpayer noncompliance. Finally, management noted that the PATH Act did not change the filing date for Form 1098-T. Institutions generally have until March 31 to file Form 1098-T with the IRS.²² As such, these forms would not be available to verify claims at the time tax returns are filed. As of March 2, 2017, the IRS had received nearly 5.4 million tax returns claiming the AOTC, Lifetime Learning Credit, or the Tuition and Fees Deduction.

- **Residential Energy Efficient Property Credit** – We continue to identify that the IRS is incorrectly limiting taxpayers’ Residential Energy Efficient Property Credit to the \$500 (\$1,000 if married filing jointly) limit associated with the Nonbusiness Energy Property Credit. Taxpayers can claim a credit based upon the costs of certain property such as solar electric and geothermal heat pump items that is generally limited to their tax liability. We previously reported this condition in the 2015 and 2016 Filing Seasons. On February 10, 2017, we alerted IRS management once again that corrective actions taken in response to our prior recommendations do not ensure that Residential Energy Efficient Property Credit claims are not improperly limited. The IRS agreed with our assessment and expected to correct computer programming errors on March 19, 2017. As of March 2, 2017, the IRS had improperly reduced Residential Energy Efficient Property Credit claims on 123 tax returns by a total of approximately \$241,000.

Accuracy of IRS tax forms, schedules, publications, and information on IRS.gov

Each year, the IRS must update its tax forms, schedules, and publications as well as information on IRS.gov to accurately reflect tax changes. These changes include: inflationary adjustments, income limit phase-ins or phase-outs, and legislative changes. Overall, our review of the forms, instructions, and publications related to the previously discussed key tax provisions found that

²² Paper-filed Forms 1098-T are to be filed with the IRS no later than February 28.



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most have been accurately updated. However, our review identified some instances in which information related to these provisions was not always accurate or updated. For example:

- On December 2, 2016, we informed the IRS that our review of the draft instructions for Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits)*, dated August 26, 2016, and for Form 8917, *Tuition and Fees Deduction*, dated July 28, 2016, were not updated to reflect the new education benefit requirements as well as the exceptions to those requirements. The IRS responded that it is only addressing the Form 1098-T requirement by adding a new item to the “What’s New” section to the Form 8863 based on wording used in the proposed regulations.
- On February 9, 2017, we notified the IRS of concerns we identified related to seven IRS instructional YouTube videos that did not contain a detailed description of the changes for the current filing season. The videos we reviewed discussed the refund delay for taxpayers claiming the EITC and the ACTC; taxpayers claiming the AOTC; taxpayers with ITINs; and inflationary adjustments to items such as personal exemptions and the standard deduction. In response to our observations, the IRS deactivated one video that it already had planned to update and removed a reference to a prior year on one video script. In addition, IRS management explained that the YouTube videos are intended to provide a broad overview of a given topic and refer viewers to available resources for additional details. As such, the information provided in the remaining videos is adequate for the videos’ intended purpose.

Detecting and Preventing Tax Refund Fraud

As of March 4, 2017, the IRS reported that it identified 30,674 tax returns with \$961 million claimed in fraudulent refunds and prevented the issuance of \$918.6 million (95.6 percent) of those refunds. Figure 6 shows the number of fraudulent tax returns identified by the IRS for Processing Years 2014 through 2016 as well as the refund amounts that were claimed and stopped.



Figure 6: Fraudulent Returns and Refunds Identified and Stopped in Processing Years 2014 Through 2016

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refunds Identified	Amount of Fraudulent Refunds Stopped
2014	2,180,613	2,066,394	\$15,724,424,102	\$15,209,859,119
2015	1,811,354	1,646,155	\$12,369,252,837	\$11,639,842,002
2016	1,067,878	991,681	\$7,970,283,186	\$7,648,398,857

Source: IRS fraudulent tax return statistics for Processing Years 2014 through 2016.

The decrease in the number of fraudulent tax refunds the IRS detects and stops is attributable to the continued expansion of processes to prevent fraudulent tax returns from entering the tax processing system, *i.e.* rejecting e-filed tax returns and preventing paper-filed tax returns from posting. For example, as of March 13, 2017, the IRS locked approximately 33.2 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-filed tax return from posting to the Master File if the SSN associated with a locked tax account is used to file a tax return. According to the IRS, as of February 28, 2017, it had rejected approximately 10,954 fraudulent e-filed tax returns, and as of March 16, 2017, it had stopped 2,317 paper-filed tax returns from posting to the Master File.

Detection of tax returns involving identity theft

For the 2017 Filing Season, the IRS is using 197 identity theft filters to identify potentially fraudulent tax returns and prevent the issuance of fraudulent tax refunds. These filters incorporate criteria based on characteristics of confirmed identity theft tax returns, including 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 March 2, 2017, the IRS reported that it had identified and confirmed 14,068 fraudulent tax returns and prevented the issuance of \$91.9 million in fraudulent tax refunds as a result of the identity theft filters. Figure 7 shows the number of identity theft tax returns the IRS identified and confirmed as fraudulent as of March 2, 2017, for Processing Year 2017 and as of a comparable time frame for Processing Years 2015 and 2016.



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**Figure 7: Identity Theft Tax Returns Confirmed
As Fraudulent in Processing Years 2015
Through 2017**

Processing Year	Number of Identity Theft Returns
2015	16,523
2016	31,578
2017	14,068

Source: IRS fraudulent tax return statistics for Processing Year 2015 (as of February 28, 2015); Processing Year 2016 (as of February 29, 2016); and Processing Year 2017 (as of March 2, 2017).

In February 2017, we reported²³ that with the passage of legislation to accelerate the reporting date of Forms W-2, the IRS should be able to significantly reduce the number of undetected tax returns reporting false wages and withholding if it compares available Form W-2 information to the tax return at the time the tax return is processed. Similar to Processing Year 2016, the IRS initiated a voluntary program in which 18 payroll providers were requested to submit Forms W-2 directly to the IRS by January 31, 2017. The IRS uses the identity theft models to compare this accelerated Form W-2 information to the tax return at the time the tax return is processed for identity theft detection. The IRS stated that as of March 2, 2017, it selected 21,461 tax returns for identity theft treatment based upon the early submission of Forms W-2.

Finally, in response to concerns raised by TIGTA regarding multiple refunds going to the same address or bank account, the IRS continues to use its clustering filter tool to group tax returns based on characteristics that include the address, zip code, and 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 2, 2017, the IRS reports that, using this tool, it identified 72,622 tax returns and prevented the issuance of approximately \$334.6 million in fraudulent tax refunds.

²³ TIGTA, Ref. No. 2017-40-017, *Efforts Continue to Result in Improved Identification of Fraudulent Tax Returns Involving Identity Theft; However, Accuracy of Measures Needs Improvement* (Feb. 2017).



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Converting direct deposits to a paper check

In an effort to further reduce fraudulent tax refunds, the IRS limits the number of direct deposit refunds that can be sent to one bank account to three refunds. The IRS will convert the fourth and subsequent direct deposit refund requests to a paper check and send it to the taxpayer's address of record.²⁴

In January 2017, we reported that our analysis of direct deposit requests made as of May 5, 2016, found that IRS processes still do not always convert direct deposits to a paper check when required.²⁵ The IRS received approximately 86 million requests for direct deposits as of May 5, 2016. Our analysis of the 86 million deposit requests identified 24,644 unique bank accounts with a total of 66,727 direct deposit attempts totaling \$119.1 million that should have converted to a paper check. Of the 66,727 deposit attempts we identified, 5,605 (8.4 percent) deposit attempts totaling approximately \$9.2 million did not convert to a paper check as required.

We also reported that processes did not convert direct deposits to paper checks in August 2015²⁶ and again in December 2015.²⁷ In response to these reports, IRS management stated that computer programming errors resulted in the IRS not properly identifying all direct deposit accounts with multiple deposit requests. According to IRS management, the IRS corrected two of the three issues and planned to implement computer programming changes to correct the third issue in Calendar Year 2016.

IRS management stated that additional programming changes were implemented in July 2016 to address the remaining condition we identified during the 2015 Filing Season. We are evaluating whether the IRS implemented programming changes to address the errors we identified during the 2015 Filing Season as planned. We will provide the final results of our assessment in our 2017 Filing Season report that will be issued later this year.

Screening of prisoner tax returns

As of March 4, 2017, the IRS reported that it identified for screening 17,227 potentially fraudulent tax returns filed by prisoners.²⁸ Figure 8 shows the number of prisoner tax returns identified for screening in Processing Years 2015 through 2017.

²⁴ The most current address the IRS has on record for a taxpayer where communications can be sent.

²⁵ TIGTA, Ref. No. 2017-40-014, *Results of the 2016 Filing Season* (Jan. 2017).

²⁶ TIGTA, Ref. No. 2015-40-080, *Results of the 2015 Filing Season* (Aug. 2015).

²⁷ TIGTA, Ref. No. 2016-40-008, *Continued Refinement of the Return Review Program Identity Theft Detection Models Is Needed to Increase Detection* (Dec. 2015).

²⁸ Tax returns filed using a prisoner's name and SSN.



Figure 8: Prisoner Tax Returns Identified for Screening in Processing Years 2015 Through 2017 (as of March 4, 2017)

Processing Year	Number of Prisoner Tax Returns Identified for Screening
2015	26,797
2016	20,224
2017	17,227

Source: IRS fraudulent tax return statistics for Processing Years 2015 through 2017 as of March 4, 2017.

To combat refund fraud associated with tax returns filed using prisoner SSNs, 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 SSN.

In addition, to further its efforts to identify prisoner tax returns, the *Bipartisan Budget Act of 2013*,²⁹ enacted in December 2013, amended the *Improper Payments Elimination and Recovery and Improvement Act*³⁰ to give the Secretary of the Treasury the authority to obtain Prisoner Update Processing System data from the Social Security Administration and make it available for those programs in which prisoners are ineligible for benefits. Specifically, the Act authorizes the IRS to compare the Social Security Administration prisoner information with any other Personally Identifiable Information derived from a Federal system of records. IRS management noted that the IRS is using the Prisoner Update Processing System data as part of the 2017 Filing Season prisoner identification process.

The RRP replaces the Electronic Fraud Detection System to detect tax refund fraud

The IRS retired the Electronic Fraud Detection System fraud detection processes on October 23, 2016. Beginning with the 2017 Filing Season, the RRP is now the IRS's sole source for detecting potentially fraudulent prisoner tax returns. The IRS stated that the RRP provides new and improved capabilities in its fraud detection and prevention processes. The RRP has

²⁹ Pub. L. No. 113-67, § 204.

³⁰ Pub. L. No. 112-248, 126 Stat. 2390.



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real-time filtering capabilities and is designed to improve the IRS's ability to detect, resolve, and prevent fraud. We are conducting a separate review of the IRS's efforts to address prisoner fraud.³¹ We plan to issue our report later this calendar year. In addition, we are conducting a separate review of the IRS's use of the RRP to detect and prevent fraud during the 2017 Filing Season.³²

Providing Customer Service

Similar to past filing seasons, taxpayers have multiple options to choose from when they need assistance from the IRS, including 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, *e.g.*, Twitter, Facebook, and YouTube. The IRS continues its trend to depend more on technology-based services and external partners by directing taxpayers to the most cost-effective IRS or partner channel available to provide the needed service. The IRS notes that this approach allows it 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 people with tax account issues. For example, in an effort to continue to redirect taxpayers to online services, the IRS has expanded online tools available to taxpayers on IRS.gov:

- **Interactive Tax Assistant** – this tool 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 March 4, 2017, a total of 522,956 requests had been completed which is a 21 percent decrease from the 663,276 requests that were completed during the same time period last filing season.
- **Where's My Refund?** – this tool 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 4, 2017, there have been 184 million uses of the tool. This is an 11.4 percent decrease over the same time last filing season.
- **Am I Eligible for a Coverage Exemption or Required to Make an Individual Shared Responsibility Payment** – this tool helps taxpayers determine if they are eligible for an exemption from the minimum essential coverage requirement or if they must make an SRP. According to the IRS, 40,032 taxpayers have used this tool as of March 2, 2017. This is an increase of more than 8.3 percent over the 36,966 uses for the same period last filing season.

³¹ TIGTA Audit Number 201640007, *Follow-Up Review of Prisoner Fraud*.

³² TIGTA Audit Number: 201740029, *Assessment of the IRS's Filing Season 2017 Fraud Detection Activities*.



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- **Individual Shared Responsibility Provision Payment Estimator** – this tool allows taxpayers to estimate the amount they may have to pay if they did not maintain minimum essential coverage during the year. From January 1 through March 2, 2017, 77,033 taxpayers have used this tool which is 399 percent increase for the same period last filing season.

Self-assistance through IRS.gov and social media channels

The IRS continues to offer self-assistance options that taxpayers can access 24 hours a day, seven days a week. The most notable self-assistance option is the IRS's public Internet site, IRS.gov. The IRS has been actively steering taxpayers to its website as the best source for answers to their tax questions. The IRS reports 196.5 million visits to IRS.gov this filing season as of March 4, 2017.



Taxpayers can also interact with the IRS using IRS2Go, which is a mobile application that lets taxpayers access information and a limited number of IRS online tools. As of February 25, 2017, the IRS reports that the IRS2Go mobile application had 3.36 million active users.

In addition, the IRS uses various forms of social media including YouTube, Twitter, Tumblr, and Facebook. As of March 4, 2017, there have been 852,884 new views of IRS YouTube videos and a total of 158,554 Twitter followers.

Toll-free telephone level of assistance continues to increase

As of March 2, 2017, approximately 27.4 million total attempts and 19 million net attempts³³ were made by taxpayers to contact 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.³⁴ As of March 4, 2017, the IRS reports that 10.4 million calls were answered with automation, and telephone assistants answered nearly 4.7 million calls and provided a 76.2 percent Level of Service³⁵ with a 7.1 minute Average Speed of Answer. The Level of Service for the 2016 Filing Season was 72 percent. The IRS forecasts a 75 percent Level of Service for the 2017 Filing Season. Figure 9 shows a comparison of IRS toll-free telephone statistics as of March 4, 2017, for Fiscal Years 2014 through 2017.

³³ Total call attempts represent calls received during open and after hours. Total net call attempts represent calls received during open hours.

³⁴ The IRS refers to the suite of 29 telephone lines to which taxpayers can make calls as "Customer Account Services Toll-Free."

³⁵ The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS's toll-free telephone lines.



Figure 9: Toll-Free Filing Season Telephone Statistics for Fiscal Years 2014 Through 2017 (as of March 4, 2017)

Statistic	Fiscal Year			
	2014	2015	2016	2017
Assistor Calls Answered	6,038,861	4,213,245	7,299,589	4,687,582
Level of Service	74.7%	38.5%	72.8%	76.2%
Average Speed of Answer (Minutes)	11.7	24.6	9.6	7.1

Source: IRS management information reports as of March 4, 2017. TIGTA converted the Average Speed of Answer in the reports from seconds to minutes.

The IRS continues to decrease the number of taxpayers it assists at the TACs

Each year, many taxpayers seek assistance from one of the IRS’s 376 TAC walk-in offices. Although the IRS reports 376 TACs for the 2017 Filing Season, 24 TACs are not open as they have not been staffed. The IRS estimates that the number of taxpayers it will assist at its TACs will continue to decrease this fiscal year. The IRS plans to assist approximately 3.4 million taxpayers at the TACs in Fiscal Year 2017, an approximately 23.6 percent decrease from Fiscal Year 2016. The IRS indicated that budget cuts and its strategy of appointment service at the TACs, along with continued promotion of alternative service options, will result in the reduction of the number of employees to assist taxpayers at the TACs. Figure 10 shows the number of contacts by product line at the TACs for Fiscal Years 2014 through 2017.



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Figure 10: TAC Contacts for Fiscal Years 2014 Through 2017 (in millions)

Contacts/Product Lines	Fiscal Year			
	2014	2015	2016	2017 Projections
Tax Accounts Contacts	3.6	3.8	3.1	2.4
Forms Contacts	0.4	0.3	0.1	0.1
Other Contacts ³⁶	1.4	1.5	1.2	1.0
Tax Law Contacts	0.1	0.1	0.1	<0.04
Totals	5.5	5.6	4.5	3.4

Source: IRS management information reports. Numbers shown are rounded and totals may not calculate due to rounding.

The IRS is implementing initiatives in an effort to better assist those individuals seeking assistance from a TAC. For the 2017 Filing Season, the IRS has transitioned all TACs to appointment service. The IRS indicated that it initially began providing services at the TACs by appointment in an attempt to alleviate long lines that sometimes occur at many TACs and to help ensure that taxpayers' issues are timely resolved. The IRS will attempt to resolve the taxpayer's question or provide the taxpayer with information on alternative services when they call to schedule an appointment. The IRS reports that as of February 18, 2017,³⁷ IRS employees answered over 1 million calls resulting in approximately 490,000 that necessitated a TAC appointment.

The IRS also noted that it provided service to 1.6 million taxpayers, of which 526,000 taxpayers were assisted on the telephone and 1.1 million taxpayers were assisted at a walk in office. Taxpayers served at the walk-in offices include taxpayers who had an appointment and those with an issue that did not require an appointment. In addition, the IRS stated that taxpayers that travel to a TAC without an appointment are assisted if there is availability. According to the IRS, an additional 140,000 taxpayers with issues that should have required an appointment were assisted without an appointment.

³⁶ Other Contacts includes but is not limited to: accepting 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 (only in Fiscal Year 2015); and helping taxpayers with general information such as addresses and directions to other IRS offices or other Federal Government agencies.

³⁷ For Fiscal Year 2017 – October 1, 2016, through February 18, 2017.



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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 taxpayers “virtual face-to-face interactions” with assistors. According to the IRS, taxpayers can use this technology to obtain many of the TAC’s services. The goals for Virtual Service Delivery are to enhance the use of IRS resources, optimize staffing, and balance workload. For the 2017 Filing Season, the IRS is offering Virtual Service Delivery at 28 partner site locations, which is a decrease compared to 35 locations where this service was offered the previous year.³⁸ The IRS reports that as of March 4, 2017,³⁹ a total of 1,166 taxpayers have used the service.

Finally, the IRS has an initiative to co-locate staff with the Social Security Administration to assist taxpayers. For the 2017 Filing Season, the IRS has placed employees in four Social Security Administration locations. TIGTA is planning a follow-up audit to assess the IRS’s efforts to expand customer service options to taxpayers seeking face-to-face assistance.

The volume of tax returns prepared at Volunteer Program sites continues to increase

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 and disabled, rural, Native American, and limited-English-proficient taxpayers. As of March 5, 2017, approximately 1.5 million tax returns have been prepared at the 10,015 Volunteer Program sites nationwide. The IRS reports that the accuracy rate for volunteer returns filed as of March 8, 2017, is more than 94.6 percent. Figure 11 shows the number of tax returns prepared by volunteers from Fiscal Years 2014 through 2016.

**Figure 11: Volunteer Program Statistics
for Fiscal Years 2014 Through 2016**

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Percentage Change (Fiscal Year 2015 to Fiscal Year 2016)
Tax Returns	3,646,562	3,756,707	3,813,411	1.5%
Volunteers	93,082	90,826	89,121	-1.9%
Sites	12,319	12,057	11,831	-1.9%

Source: IRS management information system containing Fiscal Years 2014 through 2016 information. Percentages are rounded.

³⁸ For the 2017 Filing Season, the IRS is no longer offering Virtual Service Delivery at IRS locations. Access to this service is only available through external partner locations.

³⁹ For Fiscal Year 2017 – October 1, 2016, through March 4, 2017.



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Accounts Management function's over-aged inventory decreased from Calendar Year 2015 to Calendar Year 2016

As of March 4, 2017, the IRS reports 520,814 cases in its over-aged inventory. In comparison, for the 2016 Filing Season, the IRS reported 1.2 million cases in its over-aged inventory as of February 27, 2016. Accounts Management function inventory includes but is not limited to amended tax returns, responses to taxpayer notices, identity theft cases, and applications for ITINs and is generally considered over-aged when it has been in inventory for more than a designated number of calendar days. Staff responsible for working Accounts Management function inventory are divided between working cases in inventory and staffing the customer service telephone lines.

While over-aged inventory remains high during the filing season, the IRS significantly reduced total over-aged inventory from 1.3 million cases at the end of Processing Year 2015 to 702,437 cases at the end of Processing Year 2016. According to IRS management, the drop in over-aged inventory during Processing Year 2016 was the result of \$290 million in additional funding received for Fiscal Year 2016 which allowed the IRS to significantly improve telephone service that year and also freed up more resources to help reduce the Accounts Management function inventory. Figure 12 provides a comparison of the Accounts Management function inventory for Processing Years 2013 through 2016.

Figure 12: Comparison of Accounts Management Function Inventory As of the End of Processing Years 2013 Through 2016

	2013	2014	2015	2016
Total Inventory	2,580,527	2,542,125	2,890,392	1,669,543
Over-Aged Volume	1,187,255	1,168,181	1,318,446	702,437
Percentage Over-Aged	46.0%	46.0%	45.6%	42.1%

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



Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide selected information related to the IRS's 2017 Filing Season.¹ TIGTA plans to issue the final results of our analysis of the 2017 Filing Season in September 2017. To achieve this objective, we:

- I. Monitored online news outlets and forums to identify any preparation, filing, or processing issues that taxpayers are experiencing.
- II. Determined if the IRS's monitoring systems indicate that individual tax returns are being processed timely and accurately.
 - A. Identified volumes of paper-filed and e-filed tax returns received through March 3, 2017, from the IRS Weekly Filing Season reports that provide a year-to-date comparison of scheduled return receipts to actual return receipts. The reports also provide a comparison to Fiscal Year 2016 receipts for the same period.
- III. Determined if the IRS correctly implemented selected new tax law provisions that affect the processing of individual taxpayer returns during the 2017 Filing Season.
 - A. Determined if refunds from the EITC and the ACTC were properly held until at least February 15, 2017, as required by the PATH Act.
 - B. Determined if tax return preparers are submitting the Form 8867, *Paid Preparer's Due Diligence Checklist*, with each tax return claiming the EITC, ACTC, and/or AOTC.
 - C. Determined if processes were established to identify and prevent EITC, CTC, ACTC, and AOTC claims by individuals filing tax returns for years prior to when a Taxpayer Identification Number was issued.
 - D. Determined if processes were established to identify CTC, ACTC, and AOTC claims filed by individuals with an inactive ITIN.
 - E. Determine if processes were established to ensure that an educational institution EIN is provided when claiming the AOTC.
 - F. Determine if processes were developed to identify education benefit claims at the time tax returns are filed for which the required statement from the educational

¹ See Appendix V for a glossary of terms.



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- institution is not provided as required in order to claim the AOTC, Lifetime Learning Credit, and the Tuition and Fees Deduction.
- IV. Identified and reviewed specific tax law changes to ensure that they are accurately reflected in all applicable forms, instructions, and publications.
 - V. Reviewed information related to the IRS's implementation of ACA tax provisions. Specifically, we analyzed the number and dollars of the PTCs received either in advance or claimed at the time of filing. In addition, we reviewed IRS statistics on minimum essential coverage and the SRPs.
 - VI. Identified online self-help applications provided by the IRS and ensured that the information and results provided are accurate.
 - VII. Identified results of the IRS's identity theft and tax refund fraud programs. We quantified fraudulent tax returns and tax returns filed by prisoners.
 - VIII. Compiled statistical information that is of interest to external stakeholders.
 - A. Determined if individuals have decreased their use of the split-refund option for depositing their refunds.
 - B. Determined if individuals have increased their use of the savings bond option for the direct purchase of savings bonds from their refunds.
 - IX. Identified results for the TAC Program.
 - X. Identified results for the Toll-Free Telephone Assistance Program.
 - XI. Identified results for the Volunteer Income Tax Assistance Program.
 - XII. Identified results for the Accounts Management function correspondence inventory.
 - XIII. Identified results for IRS self-assistance through IRS.gov.

Data validation methodology

During this review, we obtained extracts from the IRS's Individual Master File² and Individual Return Transaction File³ databases for Processing Years⁴ 2017 that were available on the TIGTA's Data Center Warehouse.⁵ Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected random samples of

² The Individual Master File is an IRS database that maintains transactions or records of individual tax accounts.

³ An IRS database containing transcribed tax returns from initial input of the original individual tax returns during tax return processing.

⁴ The calendar year in which the tax return or document is processed by the IRS.

⁵ TIGTA repository of IRS data.



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each extract and verified that the data in the extracts were the same as the data captured in the IRS's Integrated Data Retrieval System.⁶ We also performed analysis to ensure the validity and reasonableness of our data such as ranges of dollar values, transaction dates, and tax periods. Based on the results of our testing, we believe that the data used in our review were reliable.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the process for planning, organizing, directing, and controlling program operations for the 2017 Filing Season. We evaluated these controls by monitoring IRS weekly production meetings, reviewing IRS procedures, and interviewing IRS management.

⁶ IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.



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Appendix II

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Jeffrey Cullum, Senior Auditor
John L. Hawkins, Senior Auditor
Tracy M. Hernandez, Senior Auditor
Jane G. Lee, Senior Auditor
Michael J. Bibler, Auditor
Nathan J. Cabello, Auditor
Brieane K. Hamaoka, Auditor
Kimberly Holloway, Auditor
Cally M. Sessions, Auditor
J. Edmund Carr III, Senior Audit Evaluator
Ismael Hernandez, Audit Evaluator



Interim Results of the 2017 Filing Season

Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Services and Enforcement
Deputy Commissioner, Wage and Investment Division
Director, Accounts Management, Wage and Investment Division
Director, Business Modernization Office, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
Director, E-File Services, Wage and Investment Division
Director, Field Assistance, Wage and Investment Division
Director, Joint Operation Center, Wage and Investment Division
Director, Stakeholder Partnership, Education, and Communications, Wage and Investment Division
Director, Strategy and Finance, Wage and Investment Division
Director, Submission Processing, Wage and Investment Division
Chief, Program Evaluation and Improvement, Wage and Investment Division
Director, Office of Audit Coordination



Interim Results of the 2017 Filing Season

Appendix IV

Interactive Self-Help Tools and YouTube Videos

Interactive Self-Help Tools Reviewed	IRS YouTube Videos Reviewed
Where's My Refund? Tool	Individual Taxpayer Identification Number
Do I Need to File a Tax Return?	Do I Have to File a Tax Return?
How Much Is My Standard Deduction?	Education Tax Credits
Am I Eligible to Claim an Education Credit?	When Will I Get My Refund?
EITC Assistant	April 18 Is When Your Taxes Are Due in 2017
Alternative Minimum Tax Assistant for Individuals	Claiming the EITC or the ACTC? Your Refund May Be Delayed
	How to Use the Where's My Refund? Tool

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



Interim Results of the 2017 Filing Season

Appendix V

Glossary of Terms

Term	Definition
Additional Child Tax Credit	The refundable portion of the CTC that was designed to reduce the income tax burden for families with dependent children.
American Opportunity Tax Credit	A partially refundable Federal tax credit used to help parents and college students offset the costs of college.
Average Speed of Answer	The average number of seconds taxpayers waited in the assistor queue (on hold) before receiving services.
Child Tax Credit	A tax credit for families with dependent children that is used to reduce the individual income tax burden for families, better recognize the financial responsibilities of raising dependent children, and promote family values.
Earned Income Tax Credit	The EITC is used to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment.
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.



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Term	Definition
Individual Return Transaction File	A database the IRS maintains that contains information on the individual returns it receives.
Individual Taxpayer Identification Number	A number created by the IRS to provide Taxpayer Identification Numbers to individuals who do not have and are not eligible to obtain a Social Security Number.
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.
Marketplace	Marketplace is the place for people without health insurance to find information about health insurance options and to purchase health insurance. It is also known as the Health Insurance Marketplace or Health Insurance Exchange
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 an SRP 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.



Interim Results of the 2017 Filing Season

Term	Definition
Taxpayer Assistance Centers	Walk-in sites where taxpayers can receive assistance when they believe their tax issue cannot be handled online or by telephone or when they want face-to-face assistance.
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 \$54,000 and below), the elderly and disabled, rural persons, Native Americans, and persons with limited English proficiency.