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*TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION*



*Interim Results of the 2019 Filing Season*

**April 2, 2019**

**Reference Number: 2019-44-030**

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.

**Redaction Legend:**

2 = Law Enforcement Techniques/ Procedures and Guidelines for Law Enforcement Investigations or Prosecutions

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## HIGHLIGHTS

### INTERIM RESULTS OF THE 2019 FILING SEASON

## Highlights

### Final Report issued on April 2, 2019

Highlights of Reference Number: 2019-44-030 to the Commissioner of Internal Revenue.

#### IMPACT ON TAXPAYERS

The filing season, defined as the period from January through mid-April, is critical for the IRS because it is during this time that most individuals file their income tax return and contact the IRS if they have questions about specific laws or filing procedures. As of March 1, 2019, the IRS received approximately 59.2 million tax returns (with 95 percent electronically filed) and issued more than 46 million refunds totaling approximately \$142 billion.

#### WHY TIGTA DID THE AUDIT

The objective of this review was to provide selected information related to the IRS's 2019 Filing Season. TIGTA plans to issue the final results of our analysis later in Calendar Year 2019. The Tax Cuts and Jobs Act of 2017 enacted the first major tax reform legislation in more than 30 years, significantly affecting the filing of tax returns during the 2019 Filing Season. In addition to the passage of the Tax Cuts and Jobs Act of 2017, the IRS is implementing a redesigned Form 1040, *U.S. Individual Income Tax Return*. Further complicating the filing season, there was a partial Government shutdown that lasted 35 days, beginning on December 22, 2018, and ending January 25, 2019.

#### WHAT TIGTA FOUND

In preparation for the 2019 Filing Season, the IRS updated its processes and procedures to address the Tax Cuts and Jobs Act of 2017 and changes made to the Form 1040. The changes included updating 542 tax products, updating 128 information technology systems, developing and issuing guidance documents, and updating fraud detection systems. The IRS began

accepting and processing individual tax returns on January 28, 2019.

As of February 15, 2019, the IRS held 10.7 million tax returns with refunds totaling \$57.9 billion with an Earned Income Tax Credit or Additional Child Tax Credit claim as required.

The IRS continues to expand its efforts to detect tax refund fraud. As of February 23, 2019, the IRS reported that it identified 3,529 tax returns with approximately \$15.8 million claimed in fraudulent refunds and prevented the issuance of \$12.2 million (77.2 percent) in fraudulent refunds. Additionally, the IRS identified and confirmed 3,741 fraudulent tax returns involving identity theft as of February 28, 2019, and identified 20,236 prisoner tax returns for screening as of February 23, 2019.

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, and interactive self-help tools on IRS.gov. In addition, the IRS offers Instagram, Twitter, and Facebook access. As of March 1, 2019, taxpayers made approximately 26.5 million total attempts and 16.1 million net attempts (calls made during business hours) to contact the IRS by calling the various customer service toll-free telephone assistance lines. The IRS reports that it answered approximately 9.5 million calls with automation. IRS assistors have answered nearly 3.1 million calls and provided a 55.6 percent Level of Service with a 13-minute Average Speed of Answer.

Finally, during Fiscal Year 2019, the IRS plans to assist approximately 2.7 million taxpayers through face-to-face contact at the Taxpayer Assistance Centers.

#### WHAT TIGTA RECOMMENDED

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



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

April 2, 2019

**MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE**

**FROM:** Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Interim Results of the 2019 Filing Season  
(Audit # 201940401)

This report presents the results of our review to evaluate whether the Internal Revenue Service (IRS) timely and accurately processed individual paper and electronically filed tax returns during the 2019 Filing Season. As part of our Fiscal Year 2019 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 Tax Cuts and Jobs 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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*Interim Results of the 2019 Filing Season*

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### *Abbreviations*

ACTC	Additional Child Tax Credit
AOTC	American Opportunity Tax Credit
DDb	Dependent Database
e-file(d); e-filing	Electronically File(d); Electronic Filing
EITC	Earned Income Tax Credit
IRS	Internal Revenue Service
PATH Act	Protecting Americans From Tax Hikes Act of 2015
PTC	Premium Tax Credit
QBI	Qualified Business Income
RRP	Return Review Program
SSN	Social Security Number
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year



## *Background*

The annual tax return filing season<sup>1</sup> is a critical time for the Internal Revenue Service (IRS) because 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. 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. In addition, the IRS must reprogram 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. The IRS must also update its public website in order to provide online assistance to millions of taxpayers. Finally, the IRS must hire and train seasonal employees needed to support the filing season. The extensive actions the IRS must undertake to implement tax legislation are particularly challenging when tax law changes are numerous or enacted close to or after the start of the annual filing season.

### *Tax law changes affecting the 2019 Filing Season*

**Tax Cuts and Jobs Act of 2017**<sup>2</sup> – Enacted December 22, 2017, the majority of the changes enacted in the Tax Cuts and Jobs Act are effective beginning in Tax Year (TY) 2018. The Tax Cuts and Jobs Act contains 119 tax provisions administered by the IRS that affect both domestic and international taxes, and it is the first major tax reform legislation in more than 30 years. Some of the more notable changes affecting individual taxpayers in the 2019 Filing Season are provisions that repealed the personal exemption, increased the Child Tax Credit, created a new other dependent credit, increased the standard deductions, and modified itemized deductions.

Based on our risk assessment,<sup>3</sup> we are reviewing the implementation of 26 of the 119 Tax Cuts and Jobs Act tax provisions. The 26 provisions require the development of new tax forms, affect a large number of taxpayers, or involve a significant amount of dollars. The 26 provisions we selected affect tax information reported on Form 1040, *U.S. Individual Income Tax Return*; Form 1120, *U.S. Corporation Income Tax Return*; Form 1120-S, *U.S. Income Tax Return for an S Corporation*; Form 1065, *U.S. Return of Partnership Income*; or Form 1041, *U.S. Income Tax Return for Estates and Trusts*. The Treasury Inspector General for Tax Administration (TIGTA)

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<sup>1</sup> See Appendix VII for a glossary of terms.

<sup>2</sup> Pub L. 115-97, 131 Stat. 2054.

<sup>3</sup> Treasury Inspector General for Tax Administration, Audit No. 201840434, *Tax Cuts and Jobs Act: Assessment of Implementation Efforts*.



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has additional ongoing reviews assessing the IRS's implementation of other provisions. Appendix IV provides a list of TIGTA's audit coverage of the Tax Cuts and Jobs Act. Appendix V provides a list of the provisions we are evaluating in this review.

**Consolidated Appropriations Act of 2016**<sup>4</sup> – Enacted on December 18, 2015, this Act contains the Protecting Americans From Tax Hikes Act of 2015 (PATH Act). The PATH Act contains a number of provisions referred to as program integrity provisions intended to reduce fraudulent and improper Earned Income Tax Credit (EITC), Child Tax Credit, Additional Child Tax Credit (ACTC), and American Opportunity Tax Credit (AOTC) payments. The majority of the program integrity provisions were effective January 1, 2016, and affected the processing of TY 2016 tax returns.

**The Patient Protection and Affordable Care Act (Affordable Care Act)**<sup>5</sup> – Enacted March 23, 2010, this Act provides incentives and tax breaks to individuals and small businesses to offset health care expenses. It also imposes penalties, administered through the tax code, for individuals and businesses that do not obtain health care coverage for themselves or their employees. For the 2019 Filing Season, the IRS will continue its efforts to verify claims for the Premium Tax Credit (PTC). Taxpayers who purchase insurance through an Exchange are required to file a tax return and attach Form 8962, *Premium Tax Credit (PTC)*, to claim the PTC and reconcile any PTC payments that were made to an insurer on their behalf. The Affordable Care Act also requires individuals to report on their compliance to maintain minimum essential health insurance coverage. Individuals who do not maintain minimum essential coverage or qualify for an exemption from the requirement must make a Shared Responsibility Payment.

The interim 2019 Filing Season results are being presented as of several dates between January 24, 2019, and March 12, 2019, depending on when the information was available. We plan to issue our final assessment of the 2019 Filing Season later in Calendar Year 2019. This review was performed with information obtained from the Wage and Investment Division Headquarters in Atlanta, Georgia; the Wage and Investment Division Submission Processing function offices in Cincinnati, Ohio; and the Information Technology organization 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.

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<sup>4</sup> Pub. L. No. 114-113, 129 Stat. 2242 (2015).

<sup>5</sup> 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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## *Interim Results of the 2019 Filing Season*

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### *Results of Review*

The Tax Cuts and Jobs Act is the first major tax reform legislation in more than 30 years. Implementation of the 119 tax provisions required the IRS to:

- Create 48 new tax products and revise 494 existing tax products. These 542 tax products include 268 tax forms, 197 tax form instructions, and 77 publications.
- Perform computer programming changes and updates for 69 of the 119 provisions. The IRS notes that these changes and updates affect 128 information technology systems. The information technology work requests prepared by the operating divisions require the Information Technology organization to create 275 new electronic filing (e-file) business rules,<sup>6</sup> update 36 existing e-file business rules, and delete 248 e-file business rules. The requests also include creating four new error resolution codes<sup>7</sup> and updating 22 existing error resolution codes.
- Develop and issue guidance documents, including regulations, revenue rulings, revenue procedures, and notices. The IRS and the Department of the Treasury develop and issue the guidance documents to assist taxpayers with the interpretation of the Internal Revenue laws associated with a number of the provisions in the Tax Cuts and Jobs Act. TIGTA is conducting a separate review to evaluate the IRS's efforts to develop published guidance related to the Tax Cuts and Jobs Act.<sup>8</sup>
- Update its Return Review Program (RRP) and Dependent Database (DDb) fraud detection systems to address changes in the location of data fields based on revisions to tax forms. Additionally, the IRS had to adjust filters and models to reflect changes made by the Tax Cuts and Jobs Act.

Finally, during the partial Government shutdown that lasted 35 days beginning on December 22, 2018, and ending on January 25, 2019, taxpayers were unable to obtain customer service assistance, a backlog of paper tax returns and taxpayer correspondence developed, and hiring and training of toll-free line customer service representatives was delayed. For example:

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<sup>6</sup> Business rules are used to validate information included on e-filed tax returns for acceptance into tax return processing. The IRS will reject e-filed tax returns from processing when the tax return does not meet a business rule.

<sup>7</sup> Error resolution codes validate the accuracy of paper and e-filed tax returns during processing. When a tax return is identified with an error condition, the IRS suspends the tax return from processing and sends the tax return to a tax examiner to correct the error. Once corrected, the IRS continues to process the tax return.

<sup>8</sup> TIGTA, Audit No. 201810022, *Chief Counsel Guidance on Tax Law Changes*.



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- The IRS reports that it canceled 16,530 scheduled appointments at Taxpayer Assistance Centers (TAC). In addition, the IRS was also unable to staff its toll-free telephone lines to assist callers from December 22, 2018, through January 21, 2019, during which time there were approximately 3.8 million attempts to call the IRS.<sup>9</sup>
- The IRS estimates that it received more than 5 million tax forms, correspondence, payments, *etc.*, during the shutdown.<sup>10</sup> Compounding the correspondence backlog is the fact that each year the last two weeks in December and the month of January are traditionally used to shift customer service representatives from answering telephones to working correspondence in an effort to reduce correspondence inventory prior to the customer service representatives having to focus primarily on answering calls during the filing season. This did not occur because the shutdown covered this time frame. However, after the shutdown, IRS management assigned employees from various areas to assist with reducing the inventory. As of February 26, 2019, IRS management indicated that it had sent the more than 5 million documents to the appropriate downstream function for further processing. In addition, the IRS shutdown report shows that as of February 28, 2019, there were only approximately 170,000 documents that have not been sent for processing.
- As of March 8, 2019, the IRS received more than 3.4 million paper tax returns for processing, and more than 1.6 million (47 percent) still need to be processed. In comparison, the ending inventory of paper tax returns for the prior year was almost 1.8 million as of March 9, 2018. The difference represents an 11 percent decrease for this filing season over last year.
- Delays occurred in the training of customer service personnel. As of February 7, 2019, the IRS hired 2,903 employees to answer tax account calls and resolve tax account issues. The shutdown resulted in a five-week delay in training for 2,502 of the 2,903 new hires. However, the IRS was able to complete training for 436 of the new hires prior to the President's Day peak period,<sup>11</sup> leaving a shortage of 2,066 employees who were unable to answer calls from taxpayers. This contributed to a 57 percent Level of Service as of February 22, 2019, compared to a 77.9 percent Level of Service reported last year at the same time. This represents a decrease of 26.8 percent in the Level of Service.
- Delays occurred in the hiring and training of personnel in the Submission Processing function. As of February 28, 2019, the Submission Processing function has hired 2,463 employees (30 percent) of the 8,168 employees it planned to hire for the

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<sup>9</sup> The IRS toll-free telephone services opened January 22, 2019.

<sup>10</sup> The IRS reports this volume as an estimate because it does not have a physical count of what was received. The IRS weighs the paper to estimate the volume. Once the mail is opened and sorted, the IRS then has an understanding of the volume and the type of documents.

<sup>11</sup> The IRS refers to the week of President's Day as a peak period for taxpayer contact with the IRS. For Calendar Year 2019, the period covers February 18, 2019, through February 22, 2019.



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## *Interim Results of the 2019 Filing Season*

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2019 Filing Season.<sup>12</sup> These employees are responsible for sorting mail, transcribing paper tax returns, and resolving errors on the tax returns. The shortfall in hiring an additional 5,705 employees could continue to result in delays in processing of tax returns and refunds. IRS management informed us that they are continuing to hire employees throughout the filing season and have various mitigation strategies to ensure timely processing of tax returns and refunds. These strategies include transferring tax returns to other processing centers, rotating employees from other departments, and overtime for employees.

The IRS was able to continue with some of its implementation activities related to the Tax Cuts and Jobs Act during the shutdown. This included the issuance of tax forms, instructions, and publications; computer programming to accept and process tax returns; and the issuance of guidance documents, including regulations. We are continuing to evaluate the impact on the filing season resulting from the Government shutdown and will include the results of our assessment in our final 2019 Filing Season report later this year.

### **Processing Tax Returns**

Along with the numerous challenges to implement provisions of the Tax Cuts and Jobs Act, on May 24, 2018, the decision was made to redesign Form 1040. For the 2019 Filing Season, Form 1040 was redesigned to fit a one-half-page front and back.<sup>13</sup> This was achieved by keeping the lines used by a large segment of the taxpayers on the Form 1040 and moving less frequently used lines to one of six new Form 1040 schedules.<sup>14</sup> As a result, the IRS eliminated the Form 1040A, *U.S. Individual Income Tax Return*, and Form 1040EZ, *Income Tax Return for Single and Joint Filers With No Dependents*. Therefore, all individual taxpayers will file using the same tax form.

During Calendar Year 2019, the IRS expects to receive approximately 155 million individual income tax returns (approximately 16 million paper and 139 million e-filed). The IRS plans to process individual income tax returns at four tax processing centers during the 2019 Filing Season.<sup>15</sup> The IRS began accepting and processing individual tax returns on January 28, 2019. As of March 1, 2019, the IRS received approximately 59.2 million tax returns. Figure 1 presents comparative filing season statistics as of March 1, 2019.

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<sup>12</sup> The IRS planned to have 4,507 employees hired as of February 28, 2019. The additional employees will be hired throughout the remainder of the filing season.

<sup>13</sup> See Appendix VI for an example of the redesigned Form 1040.

<sup>14</sup> Schedule 1, *Additional Income and Adjustments to Income*; Schedule 2, *Tax*; Schedule 3, *Nonrefundable Credits*; Schedule 4, *Other Taxes*; Schedule 5, *Other Payments and Refundable Credits*; and Schedule 6, *Foreign Address and Third Party Designee*.

<sup>15</sup> Tax Processing Centers in Fresno, California; Kansas City, Missouri; and Austin, Texas, will process paper and e-filed tax returns. The Tax Processing Center in Ogden, Utah, will process paper tax returns only.



Interim Results of the 2019 Filing Season

**Figure 1: Comparative Filing Season Statistics  
(as of March 1, 2019)**

Cumulative Filing Season Data	2018 Actual	2019 Actual	% Change
<b>Individual Income Tax Returns</b>			
<b>Total Returns Received</b> (000s)	61,150	59,223	-3.2%
<b>Paper Returns Received</b> (000s)	3,356	2,729	-18.7%
<b>E-Filed Returns Received</b> (000s)	57,794	56,494	-2.2%
Practitioner-Prepared (000s)	28,688	27,017	-5.8%
Home Computer (000s)	29,106	29,477	1.3%
Free File (000s) <i>(also in the Home Computer total)</i>	1,189	1,251	5.2%
Fillable Forms (000s) <i>(also in the Home Computer total)</i>	100	93	-7.0%
<b>Percentage of Returns E-Filed</b>	94.5%	95.4%	0.9%
<b>Refunds</b>			
<b>Total Number Issued</b> (000s)	48,452	46,416	-4.2%
<b>Total Dollars</b> (in millions)	\$147,577	\$142,395	-3.5%
<b>Average Dollars</b>	\$3,046	\$3,068	0.7%
<b>Total Number of Direct Deposits</b> (000s)	43,549	43,241	-0.7%
<b>Total Direct Deposit Dollars</b> (in millions)	\$137,722	\$136,601	-0.8%

Source: Multiple 2019 Filing Season reports. Totals and percentages shown are rounded. The 2018 Filing Season figures are through March 2, 2018, and the 2019 Filing Season figures are through March 1, 2019.

**Penalty relief is offered to some taxpayers who have a balance due resulting from insufficient tax withholding**

The Tax Cuts and Jobs Act included provisions that made significant changes to income tax rates, income tax deductions and credits, and Federal income tax withholding. In order to minimize potential burden on employees and employers, the IRS, in conjunction with the Department of the Treasury, designed the TY 2018 withholding tables to work with employees' existing Forms W-4, *Employee's Withholding Allowance Certificate*, that were provided to their employers for prior tax years. In addition, the IRS updated its online withholding calculator on IRS.gov to work with the revised tax tables developed in response to legislative provisions included in the Tax Cuts and Jobs Act. This calculator provides taxpayers with the ability to estimate their tax liability and withholding under the Tax Cuts and Jobs Act. The calculator also



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provides the taxpayers with a suggestion to the number of withholding allowances they should claim for the remainder of the tax year.

As a result of the changes to the tax withholding tables, the IRS recognized that some taxpayers may not have checked their withholding and may unexpectedly owe tax when they file their TY 2018 tax returns. To assist taxpayers, the IRS announced on January 16, 2019, that it is waiving the estimated tax penalty for many taxpayers whose TY 2018 Federal income tax withholding and estimated tax payments fell short of their total tax liability for the year. The IRS is generally waiving the penalty for any taxpayer who paid at least 85 percent of their total tax liability during the year through Federal income tax withholding, quarterly estimated tax payments, or a combination of the two. The usual percentage threshold is either to have 90 percent of current tax liability paid in or to have 100 percent of the prior tax year's tax liability paid in to avoid a penalty. The IRS designed this relief to help taxpayers who were unable to adjust their withholding and estimated tax payments to reflect an array of changes under the Tax Cuts and Jobs Act, the far-reaching tax reform law enacted in December 2017.

The waiver of the penalty is not automatic but rather has to be requested by the taxpayer. To request the penalty waiver, an individual must file Form 2210, *Underpayment of Estimated Tax by Individuals, Estates, and Trusts*, with his or her TY 2018 income tax return. As of February 7, 2019, taxpayers reported a balance due on 539,160 (3 percent) of the 18.8 million TY 2018 tax returns filed. We found that 58,848 (11 percent) of these 539,160 tax returns met the IRS's criteria for waiver of the underpayment penalty having paid at least 85 percent of their total tax liability. Of these 58,848 filers, only 3,576 tax returns received a code during processing that allows for the relief of the penalty.

On March 22, 2019, the IRS provided additional expanded penalty relief to taxpayers by lowering (to 80 percent) the threshold required to qualify for this relief. We are continuing to evaluate the IRS's efforts to assist these taxpayers and will include the results of our assessment in our final 2019 Filing Season report later this year.

### [Evaluation of the Implementation of Tax Cuts and Jobs Act Provisions and the Form 1040, U.S. Individual Income Tax Return, Redesign Affecting the 2019 Filing Season](#)

We selected for in-depth testing 175 business rules created or modified by the IRS and 87 business rules deleted or disabled by the IRS related to the 26 key provisions and the redesigned Form 1040. As of February 28, 2019, we confirmed that the IRS correctly deleted or disabled the 87 business rules. In addition, we have evaluated 142 (81 percent)<sup>16</sup> of the

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<sup>16</sup> We are still in the process of researching the remaining 33 business rules.







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\*\*\*\*\*2\*\*\*\*\*.<sup>20</sup> We will further evaluate these tax returns to determine if they received the benefit of the \*\*\*\*\*2\*\*\*\*\* and determine the cause of the errors in our final 2019 Filing Season report.

We are continuing to evaluate the IRS's implementation of the 26 key tax provisions and the redesigned Form 1040 processing controls and will include the results of our assessment in our final 2019 Filing Season report later this year.

### **Evaluation of Integrity Provisions Included in the Protecting Americans From Tax Hikes Act of 2015**

We are continuing to evaluate IRS processes to implement the integrity provisions of the PATH Act. The following presents our results to date:

- **Receipt of income and withholding statements** – The PATH Act requires the IRS to hold refunds for taxpayers claiming the EITC and the ACTC until February 15. In addition, it moved the filing date for Forms W-2, *Wage and Tax Statement*, and Forms 1099-MISC, *Miscellaneous Income*, to January 31. This provision was enacted to enable the IRS to validate the income used to support EITC and ACTC claims before refunds are issued. The IRS reports the following:
  - As of February 11, 2019, the IRS received 225 million Forms W-2 filed by 4.5 million employers. This compares to 218 million Forms W-2 filed by 4.2 million employers as of February 11, 2018.
  - As of February 15, 2019, the IRS received 919,884 TY 2018 Forms 1099-MISC with nonemployee compensation reported. This compares to approximately 4.3 million Forms 1099-MISC as of February 16, 2018. The IRS was unable to provide the number of employers who filed these Forms 1099-MISC.

We will continue to monitor the IRS's receipt of Forms W-2 and Forms 1099-MISC throughout the filing season.

- **Processes to hold refunds that include the EITC and the ACTC until February 15** – The IRS reports that 10.7 million tax returns with an EITC or ACTC claim processed as of February 15, 2019, with refunds totaling \$57.9 billion were held as required. These refunds included EITCs totaling \$28.9 billion and ACTCs totaling \$15.5 billion. In comparison to last year, there were 9.4 million tax returns with an EITC or ACTC claim processed as of February 15, 2018, with refunds totaling \$46.9 billion that were held as

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<sup>20</sup> We were unable to identify real estate investment trust dividend income as the amount is combined with other dividend income. However, if the taxpayer claimed any dividend income, we did not include that tax return in our results.



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required. These refunds included EITCs totaling \$24.7 billion and ACTCs totaling \$9.4 billion.

The IRS systemically verifies income and withholding claimed on the tax return against Forms W-2 in the RRP. The RRP matches Forms W-2 at the time the tax return is processed to verify income and withholding. The RRP uses the results of the systemic match, in conjunction with RRP fraud models, to select tax returns as potentially fraudulent. The IRS developed a new filter that will identify tax returns claiming certain refundable credits that have no third-party income documents available for verification of income or withholding. The IRS will suspend these tax returns to allow time for these third-party income documents to become available before assigning to a compliance treatment stream.

- **Processes to ensure that an educational institution Employer Identification Number is provided when claiming the AOTC** – The PATH Act modified the AOTC to require individuals claiming the credit to provide the Employer Identification Number of the educational institution. In December 2018,<sup>21</sup> we reported that we identified 234,053 tax returns filed without an educational institution Employer Identification Number, for which taxpayers received approximately \$209 million in refundable AOTCs. In response, the IRS has established processes (business rule and error resolution code) to identify all AOTC claims at the time tax returns are filed for which the required Employer Identification Number is not provided. The business rule rejected 17,975 tax returns as of March 12, 2019, and the error resolution code identified 13,009 tax returns for further review as of February 27, 2019.<sup>22</sup>

We will continue to monitor the IRS's receipt of Forms W-2 and Forms 1099-MISC throughout the filing season as well as the IRS's use of this information to identify erroneous/fraudulent refundable credit claims.

### Detecting and Preventing Tax Refund Fraud

Our review found that the IRS's fraud detection systems (RRP and DDb) require updates due to the redesigned Form 1040 and the implementation of the Tax Cuts and Jobs Act. These updates were necessary to address changes in the location of data fields based on revisions to tax forms. For example, the IRS needs to ensure that detection filters are using the correct data as schemas<sup>23</sup> have been updated to accommodate the redesigned Form 1040. These updates include removing data fields that no longer exist from detection filters. If updates are not performed correctly, the

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<sup>21</sup> TIGTA, Ref. No. 2019-40-013, *Results of the 2018 Filing Season* (Dec. 2018).

<sup>22</sup> This error resolution code identifies numerous conditions related to education credits, including those tax returns that are missing the required educational institution Employer Identification Number for AOTC claims.

<sup>23</sup> Schemas provide basic definitions for the tax form data elements and the interrelationships among the data elements, e.g., what fields are required, field length, data type, and allowable field values.





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### **Prevention of fraudulent tax returns from entering the tax processing system increased**

The IRS continues to increase the number of fraudulent tax refunds detected and stopped from ever entering the tax processing system, *i.e.*, rejecting e-filed tax returns and preventing paper tax returns from posting. For example, as of February 21, 2019, the IRS has locked taxpayer accounts of 40.1 million deceased individuals. This compares to 35.7 million accounts locked as of February 21, 2018. When tax accounts are locked, e-filed tax returns are rejected and paper tax return are prevented from posting to the Master File. According to the IRS, as of January 24, 2019, it had rejected approximately 1,096 fraudulent e-filed tax returns, and as of February 28, 2019, it had stopped 753 paper tax returns from posting to the Master File.

### **Detection of tax returns involving identity theft improved over last year**

For the 2019 Filing Season, the IRS is using 193 filters to identify potential identity theft tax returns and prevent the issuance of fraudulent tax refunds. In comparison, for the 2018 Filing Season, the IRS used 200 filters. For the 2019 Filing Season, the IRS evaluated the DDb filters and retired several of the under-performing filters. The current 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 in an effort to prevent the issuance of a fraudulent refund. This prevents the issuance of many fraudulent tax refunds. As of February 28, 2019, the IRS reported that it had identified and confirmed 3,741 fraudulent tax returns and prevented the issuance of \$16.7 million in fraudulent tax refunds as a result of the identity theft filters. As of this same date in Processing Year 2018, the IRS had confirmed 2,204 fraudulent tax returns and prevented the issuance of \$5.6 million in fraudulent tax refunds. This represents a 69.7 percent increase over the number of tax returns identified and confirmed during the same period last filing season. Figure 4 shows the number of identity theft tax returns the IRS identified and confirmed as fraudulent in Processing Years 2017 through 2019.



**Figure 4: Identity Theft Tax Returns Confirmed As Fraudulent in Processing Years 2017 Through 2019 (as of February 28, 2019)**

Processing Year	Number of Identity Theft Returns <sup>25</sup>
2017	14,068
2018	2,204
2019	3,741

Source: IRS fraudulent tax return statistics for Processing Year 2017 (as of March 2, 2017), Processing Year 2018 (as of February 28, 2018), and Processing Year 2019 (as of February 28, 2019).

### **Screening of prisoner tax returns increased**

To combat refund fraud associated with tax returns filed using prisoner Social Security Numbers (SSN), the IRS compiles a list of prisoners (the Prisoner File) received from the Federal Bureau of Prisons and State Departments of Corrections. In addition, the IRS uses Prisoner Update Processing System data from the Social Security Administration to identify tax returns filed using a prisoner SSN for additional screening. These files are the cornerstone of the IRS's efforts to prevent the issuance of fraudulent refunds to individuals filing false tax returns using a prisoner SSN.

As of February 23, 2019, the IRS reported that it identified for screening 20,236 potentially fraudulent tax returns filed by prisoners.<sup>26</sup> This represents a 45 percent increase over the number of tax returns identified during the same period last filing season.<sup>27</sup> Figure 5 shows the number of prisoner tax returns identified for screening in Processing Years 2017 through 2019.

<sup>25</sup> According to IRS management, the decrease in confirmed identity theft tax returns as fraudulent is because the filing season started one week later in the 2018 Filing Season than the 2017 Filing Season.

<sup>26</sup> Tax returns filed using a prisoner's name and SSN.

<sup>27</sup> Starting in Processing Year 2019, the IRS is using the RRP to select prisoner inventory, which selects tax returns based on a broader range of characteristics.



**Figure 5: Prisoner Tax Returns Identified for Screening in Processing Years 2017 Through 2019 (as of February 23, 2019)**

Processing Year	Number of Prisoner Tax Returns Identified for Screening
2017	13,962
2018	13,964
2019	20,236

Source: IRS fraudulent tax return statistics for Processing Years 2017 through 2019 as of February 23, 2019.

We will continue to monitor IRS efforts to detect tax refund fraud and provide further results in our final 2019 Filing Season report later this calendar year. In addition, we are conducting a separate review assessing the IRS’s continued efforts to detect and prevent individual identity theft and plan to issue that report later this calendar year as well.<sup>28</sup>

### Providing Customer Service

The IRS provides assistance to millions of taxpayers via the telephone, its website (IRS.gov), and social media platforms as well as face-to-face assistance at its TAC and Volunteer Income Tax Assistance sites. The IRS is continuing 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.

The various self-assistance options the IRS provides enable taxpayers to access the information they need 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 272.6 million visits to IRS.gov this filing season as of March 1, 2019. In comparison, the IRS reported 242.9 million visits to IRS.gov for the 2018 Filing Season as of March 2, 2018.

<sup>28</sup> TIGTA, Audit No. 201940003, *Detection and Prevention of Individual Identity Theft*.



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The IRS provides online tools to taxpayers on IRS.gov. These tools allow taxpayers to more effectively research tax law, check on the status of their refund, and evaluate withholding relative to the Tax Cuts and Jobs Act. For example:

- **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 1, 2019, there have been 382,099 requests completed.
- **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 1, 2019, there have been approximately 236.2 million uses of the tool.
- **Withholding Calculator** – This calculator provides taxpayers with the ability to determine tax liability and withholding under the Tax Cuts and Jobs Act. The IRS reports that, as of March 9, 2019, there have been 2.6 million views of the web page that contains general information on the *Withholding Calculator*, with 536,070 uses of this calculator.

Finally, the IRS offers taxpayers the ability to obtain information and interact with the IRS using their mobile devices. For example, the IRS offers IRS2Go and uses various forms of social media, including YouTube, Twitter, Facebook, and Instagram. As of February 28, 2019, the IRS reports that the IRS2Go mobile application had 6.5 million active users. As of March 10, 2019, there have been 15 million views of IRS YouTube videos. As of March 1, 2019, there are a total of 105,521 Twitter followers and 114,070 Facebook followers. In addition, as of March 4, 2019, there are 6,839 Instagram followers.

### **The toll-free telephone level of assistance dropped**

As of March 1, 2019, taxpayers made approximately 26.5 million total attempts and 16.1 million net attempts<sup>29</sup> to contact the IRS by calling the various customer service toll-free telephone assistance lines. The IRS reports that approximately 9.5 million calls were answered with automation, and telephone assistors answered nearly 3.1 million calls and provided a 55.6 percent Level of Service with a 13-minute Average Speed of Answer. Prior to the partial Government shutdown, the IRS forecasted an 80 percent Level of Service for the 2019 Filing Season. However, after the shutdown ended, the IRS revised the Level of Service forecast to 61 percent.<sup>30</sup> Figure 6 shows a comparison of IRS toll-free telephone statistics as of March 1, 2019, for Filing Seasons 2018 and 2019.

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<sup>29</sup> Total call attempts represent calls received during open and after hours. Total net call attempts represent calls received during open hours.

<sup>30</sup> IRS management explained that they lowered the Level of Service target from 80 percent to 61 percent after considering the enacted level of funding, pay raises, and the delayed training that overlapped with the filing season.



**Figure 6: Toll-Free Telephone Services  
Statistics for Filing Seasons 2018 and 2019  
(as of March 1, 2019)**

Statistic	Filing Season	
	2018	2019
Assistor Calls Answered	4,784,000	3,052,000
Level of Service	78.3%	55.6%
Average Speed of Answer (Minutes)	6	13

Source: IRS management information reports as of March 1, 2019.

The IRS's Level of Service measurement does not include the total number of taxpayer calls to the IRS during a given time frame. Rather, the IRS only includes selected toll-free telephone lines in its calculation. As such, TIGTA computed the Level of Access.<sup>31</sup> The Level of Access reflects the total of all callers seeking assistance that receive it. As of March 1, 2019, the Level of Access we computed was 47.3 percent. We are conducting a separate review that is scheduled to be completed in May 2019 that evaluates whether IRS telephone measures accurately reflect performance and provide a sufficient assessment of service provided to taxpayers.<sup>32</sup>

### **TAC assistance decreased**

Each year, many taxpayers seek assistance from one of the IRS's 358 walk-in offices, called TACs. Although the IRS reports having 358 TACs for the 2019 Filing Season, 33 TACs are not open because they have not been staffed as of March 1, 2019. The IRS hired 36 employees to assist taxpayers at 32 of its 358 TAC locations. This includes six employees who filled vacant positions and 30 employees who filled new seasonal positions specifically for the 2019 Filing Season.

The estimated number of taxpayers the IRS will assist at its TACs will continue to decrease this fiscal year. The IRS plans to assist approximately 2.7 million taxpayers at its TACs in Fiscal Year 2019, an approximately 7 percent decrease from Fiscal Year 2018. Figure 7 shows the number of contacts by product line at the TACs for Fiscal Years 2018 and 2019.

<sup>31</sup> The Level of Access is computed by taking the sum of Assistor Calls Answered (3,052,000) and Automated Calls Answered (9,459,000) divided by Total Dialed Number Attempts (26,476,654).

<sup>32</sup> TIGTA, Audit No. 201840025, *Telephone Performance Measures – Follow-Up*.



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**Figure 7: TAC Contacts for Fiscal Years 2018 and 2019 (in millions)**

Contacts/Product Lines	Fiscal Year	
	2018	2019 Projections
Tax Accounts Contacts	1.80	1.60
Forms Contacts	0.08	0.07
Other Contacts <sup>33</sup>	1.00	1.00
Tax Law Contacts	0.02	0.02
<b>Totals</b>	<b>2.90</b>	<b>2.70</b>

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

For the 2019 Filing Season, the IRS continues to use its appointment service for all TACs. The IRS indicated that it initially began providing services at the TACs by appointment in an attempt to alleviate long lines that sometimes occurred at many TACs and to help ensure that taxpayers' issues are timely resolved. As a further service to taxpayers, 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 28, 2019,<sup>34</sup> IRS employees answered 873,877 calls to schedule an appointment. Of these, 436,100 necessitated the taxpayer schedule an appointment and visit a TAC; the remaining 437,777 taxpayers were assisted without having to visit a TAC. The IRS noted that taxpayers who travel to a TAC without an appointment are assisted if there is availability. As of February 28, 2019, the IRS reported that it provided assistance to nearly 80,000 taxpayers who did not have an appointment.

The IRS also continues to offer Virtual Service Delivery, which integrates video and audio technology to allow taxpayers to see and hear an IRS 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 the Virtual Service Delivery Program are to enhance the use of IRS resources, optimize staffing, and balance workload. For the 2019 Filing Season, the IRS is offering Virtual Service Delivery at 38 partner

<sup>33</sup> 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; and helping taxpayers with general information such as addresses and directions to other IRS offices or other Federal Government agencies.

<sup>34</sup> For Fiscal Year 2019 – October 1, 2018, through February 28, 2019.



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site locations, compared to 35 locations the previous year. The IRS reports that, as of February 28, 2019,<sup>35</sup> a total of 212 taxpayers have used the service.

Finally, the IRS has an initiative to co-locate with the Social Security Administration to assist taxpayers. For the 2019 Filing Season, the IRS has placed employees in five Social Security Administration locations; however, one location is currently unstaffed. The IRS reports that as of February 28, 2019, 628 taxpayers have used the service.

TIGTA has a separate audit to evaluate the quality of assistance at the TACs and other locations where face-to-face service is provided.<sup>36</sup>

### **Assistance at Volunteer Program sites decreased slightly**

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, limited-English-proficient, and Native Americans. Our review showed that the Volunteer Program training materials were updated to address Tax Cuts and Jobs Act tax reform changes. IRS management noted that the demand for volunteer tax preparation services has remained constant for the last several years, and they did not anticipate an increase in demand for services due to the Tax Cuts and Jobs Act.

Volunteer Program sites prepared approximately 1.1 million tax returns as of February 24, 2019, at 9,584 Volunteer Program sites that were open as of February 26, 2019. Figure 8 shows the number of tax returns prepared by volunteers from Fiscal Years 2017 through 2019 as of February 24, 2019.

**Figure 8: Volunteer Program Statistics  
for Fiscal Years 2017 Through 2019  
(as of February 24, 2019)**

	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	% Change (Fiscal Year 2018 to Fiscal Year 2019)
Tax Returns	1,175,626	1,155,419	1,062,386	-8.1%
Sites	10,060	9,676	9,584	-1.0%

Source: IRS management reports containing Fiscal Years 2017 through 2019 information.  
Percentages are rounded.

<sup>35</sup> For Fiscal Year 2019 – October 1, 2018, through February 28, 2019.

<sup>36</sup> TIGTA, Audit No. 201940013, *Quality of Face-to-Face Assistance*.



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### **The Accounts Management function over-aged inventory increased**

As of March 9, 2019, the IRS reports more than 1 million cases in its over-aged inventory. In comparison, for the 2018 Filing Season, the IRS reported 820,404 cases in its over-aged inventory as of March 10, 2018, which is an increase of 23.8 percent. Accounts Management function inventory includes, but is not limited to, amended tax returns, responses to taxpayer notices, and identity theft cases 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 taxpayer correspondence are divided between working taxpayer correspondence and staffing the customer service telephone lines.

The total inventory increased from 1.8 million cases as of March 10, 2018, to more than 2 million cases as of March 9, 2019. Figure 9 provides a comparison of Accounts Management function inventory for Fiscal Years 2018 and 2019 as of March 9, 2019.

**Figure 9: Comparison of Accounts Management Function Inventory for Fiscal Years 2018 and 2019 (as of March 9, 2019)**

	2018	2019	Percent Change
Total Inventory	1,837,063	2,054,367	11.8%
Over-Aged Volume	820,404	1,015,293	23.8%
Percentage Over-Aged	44.7%	49.4%	10.5%

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



## Appendix I

### *Detailed Objective, Scope, and Methodology*

Our overall objective was to evaluate whether the IRS timely and accurately processed individual paper and e-filed tax returns during the 2019 Filing Season.<sup>1</sup> To accomplish our objective, we:

- I. Monitored online news outlets and forums to identify any preparation, filing, or processing issues that taxpayers are experiencing.
- II. Determined if IRS monitoring systems indicate that individual tax returns were being processed timely and accurately.
  - A. Monitored key IRS indicators including, but not limited to, the e-file business rule reports, volume of tax returns receipts, and applicable IRS Internet and intranet websites.
  - B. Identified volumes of paper and e-filed tax returns received through March 1, 2019, from the IRS Weekly Filing Season reports and compared the statistics to the same period for the 2018 Filing Season.
- III. Provided statistics on the various forms of social media platforms that the IRS used to offer taxpayers a way to obtain information, such as the number of YouTube views, Twitter followers, Facebook followers, Instagram followers, and IRS2Go mobile application users.
- IV. Ensured that the business rules<sup>2</sup> associated with the 26 key Tax Cuts and Jobs Act of 2017<sup>3</sup> provisions and the redesigned Form 1040, *U.S. Individual Income Tax Return*, worked as intended.
  - A. Obtained a list of the business rules associated with the 26 key provisions in the Tax Cuts and Jobs Act and the redesigned Form 1040.
  - B. Reviewed and quantified the business rule results using IRS reports. We ensured that the disabled and deleted rules were not populating in error.
  - C. Evaluated the accuracy of the new and revised business rules.

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<sup>1</sup> See Appendix VII for a glossary of terms.

<sup>2</sup> Business rules are used to validate information included on e-filed tax returns for acceptance into tax return processing. The IRS will reject e-filed tax returns from processing when the tax return does not meet a business rule.

<sup>3</sup> Pub L. 115-97, 131 Stat. 2054.



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## *Interim Results of the 2019 Filing Season*

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- D. Determined if the business rules are accurately rejecting tax returns meeting the criteria. Additionally, we determined if the business rules are accurately accepting tax returns when the reject conditions are not present.
- V. Ensured that the error resolution codes<sup>4</sup> associated with the 26 key Tax Cuts and Jobs Act provisions and the redesigned Form 1040 worked as intended.
  - A. Obtained a list of the error resolution codes associated with the 26 key provisions in the Tax Cuts and Jobs Act and the redesigned Form 1040.
  - B. Evaluated the accuracy of any new or revised error codes.
  - C. Reviewed the IRS procedures.
  - D. Monitored and quantified error codes using IRS reports.
  - E. Analyzed data extracts of the daily Error Resolution files to ensure that data are accurate.
  - F. Determined if the error resolution codes are accurately selecting tax returns meeting the criteria. Additionally, we determined if the error resolution codes are accurately allowing tax returns to process when the reject conditions are not present.
- VI. Evaluated the accuracy of QBI deduction claims on Form 1040.
  - A. Quantified the number of tax returns selected by the QBI deduction business rules and error resolution codes.
  - B. Determined that each tax return claiming the deduction for QBI has an entry that supports that the taxpayer has a business.
- VII. Identified results of the IRS tax refund fraud programs, including identity theft and prisoner refund fraud.
  - A. Obtained the number of TY 2018 fraudulent tax return statistics.
    - 1. Identified the number of fraudulent refund tax returns identified and stopped.
    - 2. Identified the amount of fraudulent tax refunds identified and stopped.
    - 3. Compared these statistics to Processing Years 2017 and 2018.
  - B. Obtained from the IRS the number of prisoner tax returns identified for screening during Processing Year 2019 and compared the statistics to the same period for Processing Years 2017 and 2018.

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<sup>4</sup> Error resolution codes validate the accuracy of paper and e-filed tax returns during processing. When a tax return is identified with an error condition, the IRS suspends the tax return from processing and sends the tax return to a tax examiner to correct the error. Once corrected, the IRS continues to process the tax return.



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## *Interim Results of the 2019 Filing Season*

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- C. Obtained from the IRS the number of tax returns identified as potential identity theft tax returns and the number of tax returns screened and confirmed, along with the amount of refunds claimed and stopped.
- VIII. Identified the impact the 26 key Tax Cuts and Jobs Act provisions and the redesigned Form 1040 had on the IRS's fraud detection activities. This includes the RRP and the DDb. We identified the changes made to the RRP and the DDb based upon the Tax Cuts and Jobs Act and the redesigned Form 1040.
- IX. Identified results for the IRS TAC Program.
- X. Identified results for the IRS Toll-Free Telephone Assistance Program.
- XI. Identified results for the IRS Volunteer Program.
- XII. Monitored the Accounts Management function over-age inventory.
- XIII. Identified results for the IRS self-assistance through IRS.gov.
- XIV. Assessed the IRS's hiring and training plans for Customer Service and Submission Processing functions to ensure that tax returns are processed correctly and that they provide quality customer service.
  - A. Identified the number of additional employees hired for Field Assistance and the Accounts Management function and compared to prior year hiring figures.
  - B. Identified the plan for the new hires for Field Assistance and the Accounts Management function to assist taxpayers during the filing season.
  - C. Determined if Field Assistance and the Accounts Management function have a shortage of employees and identified the impact to the filing season and the customer service that the IRS will provide.
  - D. Identified the number of employees hired by Submission Processing functions and compared to prior year hiring figures.
  - E. Identified the plan for the new hires for Submission Processing functions to process tax returns.

### **Data validation methodology**

During this review, we obtained extracts from the IRS's Individual File, Individual Return Transaction File, Error Resolution, Electronic Tax Administration Research and Analysis System, and Modernized e-file databases for Processing Year 2019 that were available on TIGTA's Data Center Warehouse or extracted by TIGTA directly from the IRS. Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected random samples of 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 or the



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Employee User Portal. 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 2019 Filing Season. We evaluated these controls by monitoring IRS weekly production meetings, reviewing IRS procedures, and reviewing IRS reports.



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**Appendix II**

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**Appendix III**

*Report Distribution List*

Deputy Commissioner for Services and Enforcement  
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



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**Appendix IV**

*Audit Coverage of the Tax Cuts and Jobs Act*

<b>Audit Number</b>	<b>Audit Title</b>
201810022	Chief Counsel Guidance on Tax Law Changes
201810024	Tax Cuts and Jobs Act: Chief Counsel Notice 2018-54 Issuance <sup>1</sup>
201810427	Tax Cuts and Jobs Act: Excise Tax on Excess Compensation of Tax-Exempt Organization Employees
201820426	Tax Cuts and Jobs Act: Assessment of Progress to Make System Modifications <sup>2</sup>
201820428	Tax Cuts and Jobs Act: Filing Season 2019 Systems Development
201830028	Implementation of the International Provisions of the Tax Cuts and Jobs Act
201830429	Tax Cuts and Jobs Act: Repatriation Tax on the Untaxed Earnings of Foreign Corporations
201840027	Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts <sup>3</sup>
201840434	Assessment of the Implementation of the Tax Cuts and Jobs Act
201840435	Deduction for Qualified Business Income <sup>4</sup>

*Source: TIGTA analysis of audit coverage of the Tax Cuts and Jobs Act.*

<sup>1</sup> TIGTA, Ref. No. 2019-14-019, *Review of the Issuance Process for Notice 2018-54* (Feb. 2019).

<sup>2</sup> TIGTA, Ref. No. 2018-24-064, *A Shortened Delivery Cycle, High Volume of Changes, and Missed Deadlines Increase the Risk of a Delayed Start of the 2019 Filing Season* (Sept. 2018).

<sup>3</sup> TIGTA, Ref. No. 2018-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts* (Apr. 2018).

<sup>4</sup> TIGTA, Ref. No. 2019-44-022, *Tax Cuts and Jobs Act: Implementation of the Qualified Business Income Deduction* (Mar. 2019).



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**Appendix V**

*Key Provisions of the Tax Cuts and Jobs Act*

<b>Provision</b>	<b>Standardized Language</b>
11001	Modification of rates.
11002	Inflation adjustments based on chained Consumer Price Index.
11011	Deduction for qualified business income.
11012	Limitation on losses for taxpayers other than corporations.
11021	Increase in standard deduction.
11022	Increase in and modification of child tax credit.
11041	Suspension of deduction for personal exemptions.
11042	Limitation on deduction for state and local, <i>etc.</i> , taxes.
11043	Limitation on deduction for qualified residence interest.
11044	Modification of deduction for personal casualty losses.
11045	Suspension of miscellaneous itemized deductions.
11046	Suspension of overall limitation on itemized deductions.
11048	Suspension of exclusion for qualified moving expense reimbursement.
11049	Suspension of deduction for moving expenses.
11051	Repeal of deduction for alimony payments.
12001	Repeal of tax for corporations.
12002	Credit for prior year minimum tax liability of corporations.
12003	Increased exemption for individuals.
13001	21-Percent corporate tax rate.
13002	Reduction in dividend received deductions to reflect lower corporate income tax rates.
13301	Limitation on deduction for interest.
13302	Modification of net operating loss deduction.
13304	Limitation on deduction by employers of expenses for fringe benefits.
13305	Repeal of deduction for income attributable to domestic production activities.
13403	Employer credit for paid family and medical leave.
13823	Opportunity zones.

*Source: TIGTA analysis of Tax Cuts and Jobs Act provisions.*



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Appendix VI

Example of Revised Form 1040, U.S. Individual Income Tax Return

Form 1040 U.S. Individual Income Tax Return 2018. Includes fields for Filing status, Name, Social Security Number, Spouse information, Home address, Dependents, Sign Here, and Paid Preparer Use Only.

Form 1040 (2018) Page 2. Tax table with lines 1-23. Includes instructions for Standard Deduction, Refund, and Amount You Owe.

Source: IRS.gov.



**Appendix VII**

*Glossary of Terms*

<b>Term</b>	<b>Definition</b>
Additional Child Tax Credit	The refundable portion of the Child Tax Credit that was designed to reduce the income tax burden for families with dependent children. It is used to adjust the individual income tax structure to reflect a family's reduced ability to pay taxes as family size increases.
Advance Premium Tax Credit	A tax credit that is paid in advance to a taxpayer's insurance company to help cover the cost of premiums.
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.
Calendar Year	The 12-consecutive-month period ending on December 31.
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.
Customer Service Representative	Responds to inquiries by telephone, in person, or by written or electronic mail correspondence. Inquiry topics may include either business or individual tax law, IRS collection techniques and enforcement actions, regulations, practices, tax forms, notices, bills, and other documents.
Data Center Warehouse	A TIGTA repository of IRS data.
Dependent Database	A rules-based system that incorporates information from many sources, including the Department of Health and Human Services, the Social Security Administration, and the IRS.
Earned Income Tax Credit	A tax credit used to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment.



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<b>Term</b>	<b>Definition</b>
Exchange	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. It is also known as the Health Insurance Marketplace or Health Insurance Exchange.
Filing Season	The period from January 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.
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 tax 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's toll-free telephone lines.
Marketplace	The 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.



*Interim Results of the 2019 Filing Season*

<b>Term</b>	<b>Definition</b>
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 Affordable Care Act to assist eligible taxpayers with paying their health insurance premiums.
Processing Year	The calendar year in which the tax 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.
Return Review Program	The RRP uses predictive analytics, models, filters, clustering, a scoring system, business rules, selection groups, and prisoner identification data to identify potentially fraudulent tax returns including identity theft.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
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 defined as within the EITC threshold), senior citizens, persons with disabilities, rural, those with limited English proficiency, and Native Americans.