

JOINT HEARING

**SUBCOMMITTEE ON OVERSIGHT
SUBCOMMITTEE ON SOCIAL SECURITY**

**COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES**



June 19, 2008

Washington, DC

**The Honorable J. Russell George
Treasury Inspector General for Tax Administration**

**STATEMENT OF
THE HONORABLE J. RUSSELL GEORGE
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION**

June 19, 2008

Chairman Lewis, Chairman McNulty, Ranking Member Ramstad, Ranking Member Johnson, and Members of the Subcommittees, thank you for the opportunity to submit testimony for this hearing. My comments will focus on the Treasury Inspector General for Tax Administration's (TIGTA) audit and investigative actions pertaining to the Economic Stimulus Act of 2008.

The Economic Stimulus Act of 2008, signed on February 13, 2008, was enacted to energize the national economy. For most individuals, the amount of the stimulus payment received is dependant on their net income tax liability. Single taxpayers will generally receive the greater of \$300 or their actual tax liability up to \$600 and couples will generally receive the greater of \$600 or their actual tax liability up to \$1,200. Anyone with qualifying children will also receive an additional \$300 per child. IRS began issuing stimulus payments on May 2, 2008.

The stimulus payments are being estimated using information reported on 2007 tax returns, so that individuals can benefit from the payments as soon as possible. Individuals who qualify for a larger payment as a result of changes between their 2007 and 2008 tax returns will receive the additional payment when they file their 2008 return (generally between January and April 2009). Individuals who receive more than they would have if the payment had been calculated using information from their 2008 return will not be asked to pay the excess back.

Due to the time-sensitive nature of these payments, we have been advising the IRS of our concerns as soon as we have identified them, to allow the IRS to take immediate corrective action when possible. In August 2008, we plan to issue the final report of this phase of our work on the Internal Revenue Service's (IRS) efforts to implement the stimulus payments.

Status of the Stimulus Payment Program:

- The IRS issued approximately 76.5 million stimulus payments as of June 13, 2008, totaling approximately \$63.9 billion.
- The IRS has made progress on resolving the back-log of stimulus-only tax returns. The IRS had processed 94 percent of the 7.7 million stimulus-only returns received as of June 7, 2008.
- The IRS plans to issue stimulus payments through December 2008 for those tax returns filed by October 15th.

Audit Status:

We have reviewed approximately 102.7 million¹ stimulus payments generated from returns processed as of May 30, 2008. We determined that the IRS is correctly calculating the stimulus payment for approximately 99.6 percent of the returns. Correct calculation includes ensuring that payments are not issued to individuals without a valid Social Security Number, individuals who do not meet gross income and net tax liability tests, and individuals who exceed income limitations. However, we have identified approximately 385,000 stimulus payments in which our calculation of the payment does not agree with the IRS's payment calculation. Preliminary review of these payments found that the differences resulted from:

- Programming that did not include qualified self-employment losses in the determination of eligibility. The IRS, with the Department of the Treasury's concurrence, is using a percentage of the self-employment tax reported on *Self-Employment Tax* (Schedule SE) in the computation of the stimulus payment instead of the actual self-employment income or loss reported on various tax schedules. The IRS and the Department of the Treasury indicated they were aware that this methodology did not address *Profit or Loss from Business* (Schedule C) and *Profit or Loss from Farm* (Schedule F) losses. However, the Treasury Department chose to use the Schedule SE percentage because it would have been too complex to program the payment for every possible self-employment scenario, given the time available. The Treasury Department indicated that the Schedule SE percentage would result in a correct payment for most individuals. As of May 30, 2008, TIGTA had identified approximately 104,000 returns with approximately \$55 million in stimulus payments that should not have been paid to individuals with Schedule C and Schedule F losses.
- Programming did not include all qualified self-employment income in the determination of eligibility. As of May 30, 2008, TIGTA had identified approximately 25,000 returns for which the stimulus payment was not allowed. In these cases, we believe that taxpayers were entitled to an additional \$16.5 million. These errors affected clergy and other individuals whose income is not subject to the self-employment tax. TIGTA plans to review the IRS's programming of the stimulus payments for Tax Year 2008 to ensure these individuals will receive the payments they are entitled to when they file their 2008 return.
- Taxpayers were not receiving the child portion of the stimulus payment because they did not check the Child Tax Credit qualifying box on the tax return. When TIGTA raised this concern, the IRS initially responded that it could not allow the child portion of the stimulus payment in these instances because eligibility for the Child Tax Credit could not be determined from the information on the tax return. The IRS subsequently announced that it will issue the additional child portion of the stimulus payment to approximately 350,000 households in July. TIGTA is in the process of quantifying the number of individuals that might be affected.

¹ This figure differs from the number issued by the IRS because our review includes payments that have not yet posted to taxpayer accounts.

Other Items of Interest:

- TIGTA has initiated a review to evaluate the effectiveness of the Criminal Investigation (CI) Division's actions to prevent the issuance of stimulus payments to individuals whose tax returns claimed false income tax refunds or who filed false stimulus-only returns. To date, we have obtained data extracts to be used in our assessment of whether the CI Division implemented controls as indicated and whether the controls are functioning as intended. We also plan to select samples to determine if the appropriate freeze was placed on accounts previously identified as fraudulent to ensure that a stimulus payment is not issued and to ensure that controls designed to stop stimulus payments for fraudulent returns are working as intended.
- On May 22, 2008, Congress passed H.R. 6081, the "Heroes Earnings Assistance and Relief Tax Act of 2008," to amend the Economic Stimulus Act of 2008 to allow thousands of military personnel to receive a stimulus payment, regardless of whether they or their spouse, or their children have a valid Social Security Number. The Joint Committee on Taxation estimates that this provision will cost \$14 million in Fiscal Year 2009. It is anticipated that the President will sign this legislation. The IRS is currently working on identifying affected military personnel. If this legislation is enacted, TIGTA will review the IRS's implementation

Additionally, TIGTA is monitoring the following issues:

- As of June 7, 2008, the IRS identified 246,079 duplicate paper-filed stimulus-only returns. These stimulus-only returns were filed using the same Social Security Number as another tax return. The IRS has consolidated the processing of these returns at its Andover, Mass., facility to expedite their processing and minimize the delay in issuing the stimulus payment. The IRS has resolved 55,852 of these returns. We are in the process of evaluating the procedures for forwarding these returns to Andover, as well as the procedures that will be used to resolve the duplicate filing conditions. Our review of a random sample of 50 of these returns showed that 39 (78 percent) were duplicate returns filed by the same taxpayer, which indicates these cases did not involve identity theft. To date, 31 of 50 have had the rebate issued. No rebate has been issued for the remaining 19.
- The IRS has determined that between 18,000 and 22,000 Understanding Your Economic Stimulus Payment Notice (Notice 1378) were issued to the wrong individuals. This was the result of a vendor error, and the problem has been corrected.
- The IRS identified a programming error that resulted in approximately 1,500 payments being directly deposited into the wrong individual's bank account. These payments totaled approximately \$1.4 million. The IRS has since corrected the error and is in the process of reissuing payments to the entitled individuals. IRS is working with the banks to recover the incorrect deposits.

- The IRS reiterated that it will issue a paper stimulus-only check to anyone who 1) used a Refund Anticipation Loan (RAL), 2) split the direct deposit refund among more than one bank account, or 3) had tax preparation and other fees deducted from the refund (refund anticipation check (RAC)). This process was established to ensure that the individual received the stimulus payment instead of the financial institution or tax preparer that provided the RAL or RAC. As of April 17, 2008, 9.9 million taxpayers had used a RAL and 10.3 million had used a RAC to receive their refunds. For split refunds, the IRS decided to issue a paper check because it did not know which account the taxpayer wanted the stimulus payment deposited in. As of June 2, approximately 225,867 taxpayers had split their direct deposit refund among more than one bank account. Not all of these individuals may qualify for an economic stimulus payment.
- IRS officials stated that on May 28, 2008, they had been notified by a tax preparation firm that approximately 450,000 tax returns had been submitted to the IRS without the RAL indicator. The IRS, aided by the firm, was able to identify these accounts before the stimulus payments were issued. Payments for these accounts are being correctly issued via paper check consistent with IRS's decision to issue paper checks on accounts having a RAL. The media incorrectly reported that these payments were being deposited into RAL accounts.
- As of May 30, 2008, TIGTA identified approximately 8,800 individuals (0.15 percent) who filed a stimulus-only return had a balance due on their tax accounts. Some of the balance-due conditions are the result of IRS input errors or taxpayers entering information on the wrong line of their tax return. The IRS is aware of this condition and has taken steps to resolve these accounts.

Office of Investigations:

TIGTA has initiated 12 complaints involving economic stimulus payments. The allegations are as follows:

- One case involves an alleged return preparer scheme that was reported to IRS-CID in Bogota, Colombia. CID referred the case to TIGTA;
- Two cases involve allegations of false impersonators requesting bank information via the telephone;
- Nine cases involve phishing emails, most of which direct victims to follow an Internet link purportedly associated with the recipient's economic stimulus refund.

In closing, I would like to emphasize that TIGTA will continue to closely monitor the issuance of the economic stimulus payments and to promptly alert the IRS of any problems or emerging issues. Mr. Chairman and Members of both Subcommittees,

thank you for the opportunity to provide TIGTA's assessment of the IRS's implementation of the Economic Stimulus Act of 2008. I would be pleased to respond in writing to any questions you may have.