



## Treasury Inspector General for Tax Administration

### THE TELEPHONE EXCISE TAX REFUND PROGRAM WAS SUCCESSFULLY IMPLEMENTED FOR BUSINESSES; HOWEVER, A LARGE AMOUNT OF OVERCOLLECTED TAX HAS GONE UNCLAIMED

Issued on April 24, 2008

## Highlights

Highlights of Report Number: 2008-30-091 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

### IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) estimated that between 13.9 million and 15.9 million business taxpayers would be eligible to claim the Telephone Excise Tax Refund (TETR). The IRS wanted to provide an easy process for taxpayers to make TETR claims, but at the same time it wanted to minimize the refunds in excess of taxes collected and discourage requests for overstated refunds. Based on the refund claims processed through November 24, 2007, a significant amount of the telephone excise tax collected could go unrefunded, and many taxpayers might still be eligible to file claims.

### WHY TIGTA DID THE AUDIT

This audit was conducted due to a request from the Deputy Commissioner for Services and Enforcement. The objective of the review was to determine whether the IRS effectively implemented the TETR program for business filers.

### WHAT TIGTA FOUND

Overall, the IRS successfully planned and implemented the TETR program for businesses. Its efforts included modifying existing forms and developing strategies to educate taxpayers regarding the availability of the refunds. The IRS also developed methods and forms for taxpayers to claim either (1) an estimated amount of TETR without having to incur the required burden of obtaining 41 months of telephone bills or (2) actual amounts as documented on their telephone bills.

Despite these efforts, much of the overcollected tax might go unclaimed and unrefunded. As of November 24, 2007, only approximately 721,410 (5.6 percent) of the 12.8 million business taxpayers who had filed their returns had made TETR claims. The

refunds associated with these claims totaled only \$876.6 million, or 17.5 percent of the \$5 billion collected.

IRS efforts to create compliance screens for identifying overstated refund requests were ambitious. These screens used selection criteria that generally increased in proportion to an increase in the size of the business. However, the minimum selection criteria set for some businesses in comparison to others were inconsistent and led to some inconsistent results.

Finally, in a prior review of TETR claims made by individuals, TIGTA found that many potentially erroneous claims went unchallenged by the IRS and resulted in excessive refunds. The IRS was unable to scrutinize many of these claims due to limited Examination function resources within the operating division responsible for reviewing those returns. At the same time, other resources set aside to review questionable business claims were underused. Shifting resources from one operating division to another might have enabled the IRS to stop or recover much of the TETR that appears to have gone out erroneously.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS survey tax preparers and business taxpayers who did not claim the TETR to determine why the refunds were not claimed. TIGTA also recommended that the IRS make appropriate changes to the screening criteria for claims on amended returns and analyze screening criteria before implementing the criteria for future programs to ensure that they provide reasonable and consistent coverage. Lastly, TIGTA recommended that the IRS give consideration to shifting resources from one operating division to another for future IRS projects or programs if doing so could help the IRS optimize its effectiveness and achieve its mission.

In their response to the report, IRS management agreed with these recommendations. Specifically, they do not have sufficient resources to survey tax preparers and business taxpayers who did not claim the TETR. However, because TIGTA has limited Office of Management and Budget authority to perform such a survey, the IRS solicited TIGTA's help in conducting this survey. The IRS also agreed to examine the screening criteria currently used to review and select for audit amended business returns with TETR requests. They are now in the process of reviewing the criteria. Finally, the IRS noted that shifting resources from one operating division to another is already part of the way in which the IRS conducts its strategic planning process, and it plans to consider this for future projects or programs.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2008reports/200830091fr.pdf>.

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