



## Treasury Inspector General for Tax Administration Office of Audit

### THE EARNED INCOME TAX CREDIT PROGRAM HAS MADE ADVANCES; HOWEVER, ALTERNATIVES TO TRADITIONAL COMPLIANCE METHODS ARE NEEDED TO STOP BILLIONS OF DOLLARS IN ERRONEOUS PAYMENTS

Issued on December 31, 2008

## Highlights

Highlights of Report Number: 2009-40-024 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) has successfully developed a number of processes to identify erroneous Earned Income Tax Credit (EITC) payments prior to issuance. However, because compliance resources are limited and alternatives to traditional compliance methods have not been developed, the majority of the potentially erroneous EITC claims identified continue to be paid in error. The IRS reports \$10 billion to \$12 billion annually in erroneous EITC payments.

### WHY TIGTA DID THE AUDIT

The objective of this review was to assess the IRS' progress in improving administration of the EITC Program since Fiscal Year 2003. Our review included assessing oversight of the Program and efforts taken to improve compliance with and participation in the Program.

### WHAT TIGTA FOUND

IRS efforts have resulted in some improved oversight and management of the EITC Program. These efforts include developing an EITC initiative to improve service, fairness, and compliance with EITC laws; establishing the EITC Program Office; and developing a Concept of Operations that provides the IRS' vision for the Program.

However, the IRS had not developed a consistent method to quantify its progress in meeting its two Program goals. The inability to measure progress in meeting these goals resulted from delays in obtaining necessary data and inconsistent measurement methods. The IRS has since developed a method to consistently measure its progress.

In addition, although the IRS has successfully developed a number of processes to identify erroneous EITC payments prior to issuance, it was unable to stop the majority of those payments. Beginning in Tax Year 2005, the IRS reallocated its examination resources across all areas of the tax code to address a greater number of higher income taxpayers. However, this decision limited the number of EITC audits the IRS performs each year.

If further expansion of math error authority is not possible, an alternative to traditional compliance methods is needed to protect revenue associated with erroneous EITC claims. Some alternatives might require a legislative change. The IRS should work with the Assistant Secretary of the Treasury for Tax Policy to obtain authority for an improved process that can make use of its success in identifying potentially erroneous EITC claims. If the IRS does not move beyond traditional compliance methods, it will be unable to significantly reduce the amount of erroneous EITC payments made annually.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, conduct a study to identify alternative processes that will expand the IRS' ability to effectively and efficiently identify and adjust erroneous EITC claims for which data show that the taxpayer does not meet EITC requirements. The Commissioner, Wage and Investment Division, should also work with the Assistant Secretary of the Treasury for Tax Policy to obtain the authority necessary to implement alternative processes to adjust erroneous EITC claims.

In their response to the report, IRS officials stated their agreement with the recommendations. They plan to continue ongoing efforts to identify new alternatives to effectively expand treatment of EITC errors, including studying Federal Case Registry information to determine its accuracy and applicability for exercising existing math error authority. The IRS also plans to communicate any relevant results from its study to the Assistant Secretary of the Treasury for Tax Policy for his or her consideration.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2009reports/200940024fr.pdf>