



Treasury Inspector General for Tax Administration Office of Audit

ACTIONS ARE NEEDED TO ENSURE PROPER USE OF INDIVIDUAL TAXPAYER IDENTIFICATION NUMBERS AND TO VERIFY OR LIMIT REFUNDABLE CREDIT CLAIMS

Issued on March 31, 2009

Highlights

Highlights of Report Number: 2009-40-057 to the Internal Revenue Service Commissioner, Wage and Investment Division.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) issues Individual Taxpayer Identification Numbers (ITIN) to provide a unique number for individuals who are not eligible for a Social Security Number (SSN) to help them comply with the tax laws and provide a means to efficiently process and account for tax returns. Improvements to the ITIN Program are needed to ensure that it is meeting its intent and that refundable credit claims are verified.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS has proper controls in place to detect and deter improper use of ITINs when processing tax returns. There has been a significant increase in the use of ITINs since the IRS began issuing them in Tax Year (TY) 1996. There was a 246 percent increase from 530,000 in TY 2001 to more than 1.8 million in TY 2007.

WHAT TIGTA FOUND

The IRS has initiated actions to improve the processing of ITIN tax returns; however, significant problems remain because the primary focus is on ensuring individuals can obtain an ITIN, without ensuring that individuals fully comply with ITIN Program requirements and guidelines.

Some individuals are assigned multiple ITINs, which defeats its purpose as a unique identification number. An IRS study identified this problem and new procedures have been implemented to check for duplicate status.

ITINs are improperly used for employment. The law establishing the ITIN specifically states that it is not an SSN or an account number for use in employment for wages. Nonetheless, our analysis of TY 2006 information identified 292,992 employers that filed

790,701 Wage and Tax Statements (Forms W-2) with ITINs reporting wages totaling more than \$9.5 billion.

Incomplete or inaccurate information is being input into IRS systems when a tax return is filed with an ITIN and the attached Form W-2 contains an SSN that does not belong to the individual filing the tax return. For electronically filed returns, this is due to some tax software auto-populating the ITIN in place of the SSN. For paper returns, the IRS does not transcribe Form W-2 information.

Billions of dollars in tax credits are provided to ITIN filers without adequate verification of eligibility. Verification is critical because the claims for credits are substantial. In TY 2007, more than 1.2 million (66 percent) ITIN filers received Additional Child Tax Credits (ACTC) of almost \$1.8 billion. This is a refundable credit available to individuals with no tax liability. Furthermore, legislation should be considered to require an SSN in order to be eligible for the ACTC, consistent with the requirements for the Earned Income Tax Credit, which is also a refundable credit.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Wage and Investment Division, develop processes to 1) identify individuals who are improperly using ITINs for work purposes and develop outreach efforts with the Social Security Administration to address the improper use, 2) limit the automatic population feature for ITIN tax returns, 3) ensure that accurate tax information is input into IRS systems from both paper and electronically filed ITIN tax returns, and 4) ensure the requirements for the Child Tax Credit and ACTC are met on ITIN returns claiming the credits. TIGTA also made a legislative recommendation to clarify whether or not refundable tax credits such as the ACTC may be paid to filers without a valid SSN and, if these credits may not be paid, to provide IRS math error authority to disallow associated claims for the credits. Disallowance of the ACTC to filers without a valid SSN would reduce Federal outlays by \$8.9 billion over 5 years.

In their response to the report, IRS officials agreed to continue to work with software companies to limit the auto-populate feature and also agreed to work with the Department of the Treasury Office of Tax Policy to consider legislation to limit claims for the ACTC to taxpayers with an SSN. The IRS disagreed with the other recommendations. TIGTA does not believe that management provided adequate justification for the disagreed recommendations.

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/200940057fr.pdf>

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