



## Treasury Inspector General for Tax Administration

### THE COMPLEXITY OF THE LAW MAKES ADMINISTERING THE ALTERNATIVE MOTOR VEHICLE CREDIT DIFFICULT

Issued on May 6, 2008

## Highlights

Highlights of Report Number: 2008-30-107 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and Wage and Investment Division.

### IMPACT ON TAXPAYERS

Tax legislation passed in 2005 provided the Alternative Motor Vehicle Credit (Credit) for taxpayers who purchase certain types of energy efficient vehicles. The provision for the Credit is very complex and could be easily misinterpreted by taxpayers, which may cause taxpayers to make erroneous claims for the Credit. The law contains specific criteria for claiming the correct Credit amount that must be clearly communicated to taxpayers.

### WHY TIGTA DID THE AUDIT

This audit was conducted as part of the TIGTA's annual audit plan. Because Tax Year 2006 was the inaugural year of the Credit TIGTA believed that many taxpayers may not fully understand and correctly calculate the Credit. The objective of the review was to determine whether the Internal Revenue Service (IRS) had adequate controls in place to properly implement and ensure taxpayer compliance with the Credit provision.

### WHAT TIGTA FOUND

Overall, the IRS successfully provided information for most taxpayers to properly claim the Credit. Through the use of newsletters, news releases, and tax tips published on its web site, the IRS kept taxpayers and tax return preparers apprised of current information regarding the Credit. Such information included the year, make, and model of vehicles that qualified for the credit; the amount of the credit available; and the number of vehicles sold to determine whether the phase out of the credit for qualifying vehicles had begun.

Some taxpayers erroneously claimed the Credit for leased vehicles. Our review of the Alternative Motor Vehicle Credit (Form 8910) and related instructions found that the form and instructions did not clearly inform taxpayers that if they were the lessee of a

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qualified vehicle they were not entitled to the Credit. TIGTA immediately notified the IRS of this concern and the IRS took corrective actions to clarify the requirements on the Form 8910 instructions for qualifying for the Credit, specifically with respect to leased vehicles.

Finally, some taxpayers claimed the Credit for vehicles that did not qualify for the Credit, claimed qualifying vehicles but claimed amounts higher than the amount allowed, or did not provide the required documentation to support the Credit claim. The erroneous claims for the Credit were allowed because the IRS did not establish sufficient controls during the processing of tax returns to ensure that claims were only allowed for qualified vehicles, and that the amounts claimed were correct.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS establish criteria to select questionable claims for the Credit to verify the amount of the Credit claimed. If a significant compliance issue in claims for the Credit is found, the IRS should consider proposing legislation to require the seller of a qualified vehicle to provide the purchaser and the IRS with an information document supporting a claim. Lastly, the IRS should establish procedures to correspond with taxpayers for missing Forms 8910 or for missing information on Forms 8910 when appropriate.

In their response to the report, IRS management agreed with these recommendations. Specifically, they plan to establish dollar criteria for selection of questionable claims for the Credit and prepare an analysis of the return on investment of examining these returns. Based on this analysis, if appropriate, they plan to initiate actions to support a legislative proposal requiring the issuance of an information document from the seller to the IRS and the purchaser of a qualified vehicle to support the claim. The IRS also plans to research additional program costs, create systemic measures to accommodate the processing and matching of an information document, project agency benefits and resource savings, and solicit outside groups for input focused on reduction of taxpayer and third-party burden. Finally, the IRS plans to establish procedures to correspond with taxpayers for missing Forms 8910 or for missing information on Forms 8910.

### 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/200830107fr.pdf>

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