



Treasury Inspector General for Tax Administration

PROCEDURES WERE NOT ALWAYS FOLLOWED WHEN RESOLVING ALTERNATIVE MINIMUM TAX DISCREPANCIES

Issued on July 30, 2008

Highlights

Highlights of Report Number: 2008-40-146 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The number of taxpayers affected by the Alternative Minimum Tax (AMT) is expected to grow significantly in the next 10 years if Congress does not continue to increase exemption amounts. AMT revenue increased from \$16.7 billion for Tax Year 2005 to \$21.4 billion for Tax Year 2006. Determining whether the AMT is owed is complex and time consuming, and the complexity causes taxpayer errors. Our review identified that tax examiners did not always follow established procedures when resolving discrepancies, which in some instances caused taxpayers to be assessed incorrect amounts.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of the TIGTA Fiscal Year 2007 Annual Audit Plan and related to the Major Management Challenge of addressing the complexity of the tax law. The overall objective of this review was to determine whether the Internal Revenue Service (IRS) computer systems accurately identified and computed the AMT for taxpayers who might be liable, including both taxpayers who claimed the AMT and those who did not claim it but should have.

WHAT TIGTA FOUND

The IRS recognizes the difficulty the AMT causes taxpayers both in determining whether the AMT applies to them and, if applicable, in computing their specific AMT liabilities. The IRS provides taxpayers with tools to determine whether they will have to prepare an Alternative Minimum Tax—Individuals (Form 6251) to determine their AMT liabilities. These tools include the *Worksheet To See If You Should Fill In Form 6251* and the AMT Assistant on IRS web site. TIGTA reviewed a random sample of 80 tax returns filed with a Form 6251. In every case, the AMT Assistant correctly notified the taxpayer whether a Form 6251 should or should not be completed.

Despite the tools provided to assist taxpayers, the complexity of the AMT causes errors in determining and computing the tax. In Calendar Year 2006, computer checks identified about 226,000 discrepancies between the AMT figures reported, or not reported, by the taxpayers and the amounts computed by the IRS. When a discrepancy exists, the tax return is sent to an IRS tax examiner, who reviews the return and looks for obvious input errors or misplaced entries. The tax examiner determines where the difference occurred. If the examiner cannot resolve the issue, a notice is sent to the taxpayer asking for additional information or informing the taxpayer that the AMT calculation was incorrect.

TIGTA reviewed a random sample of 52 tax returns filed in Calendar Year 2006 on which IRS computers identified a discrepancy. For all 52 cases, computer checks correctly identified that there was a discrepancy, and the cases were correctly sent to tax examiners for further review. However, examiners did not follow procedures when resolving 11 (21 percent) of the 52 cases. Of these 11 cases, 3 resulted in the examiners incorrectly computing the amount of tax owed. Correct identification and resolution of discrepancies is essential to avoid further increasing the burden for taxpayers subject to the AMT.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, provide information to tax examiners reiterating the importance of correctly resolving AMT discrepancies and highlighting specific issues that could lead to incorrect resolution.

In their response to the report, IRS officials agreed with our recommendation. Management indicated that the IRS Error Resolution function plans to emphasize the effect of the AMT on taxpayers and the current processing of returns to which it applies in its Submission Processing Division employee annual training. In addition, the IRS plans to issue a reminder on the Submission Processing Division "Hot Topics" web site during the filing season referencing the complexity of resolving AMT discrepancies and highlighting specific issues as necessary.

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/200840146fr.pdf>

Email Address: inquiries@tigta.treas.gov
Web Site: <http://www.tigta.gov>

Phone Number: 202-622-6500