Treasury Inspector General for Tax Administration
Office of Audit

THE 2008 FILING SEASON WAS GENERALLY SUCCESSFUL DESPITE THE CHALLENGES OF LATE AND UNEXPECTED TAX LEGISLATION

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Highlights

Highlights of Report Number: 2008-40-183 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Each year, legislated tax law changes create challenges for both the Internal Revenue Service (IRS) and individual taxpayers. Moreover, the 2008 Filing Season presented additional challenges due to the late enactment of two significant tax laws. Overall, the IRS implemented these changes correctly with no significant delays in the processing of tax returns during the 2008 Filing Season.

WHY TIGTA DID THE AUDIT

The filing season is critical for the IRS because it is the time when most individuals file their income tax returns. The 2008 Filing Season presented additional challenges for the IRS due to the late and unexpected enactment of two significant tax laws that would limit the number of taxpayers subject to the Alternative Minimum Tax and provide an economic stimulus payment to more than 130 million people. The overall objective of the review was to evaluate whether the IRS accurately processed individual paper and electronic tax returns in a timely manner during the 2008 Filing Season.

WHAT TIGTA FOUND

TIGTA found in most instances, the IRS correctly implemented the key tax law and administrative changes in 2008. However, while the IRS was able to meet the challenges created by the late and unexpected enacted legislation and accurately process most returns in a timely manner, there were opportunities to improve the processing of tax returns for the following individuals:

- Taxpayers that improperly claimed and were allowed the Qualified Mortgage Insurance Premiums deduction.
- Taxpayers age 70½ or older that improperly claimed and were allowed the Individual Retirement Account deduction.
- Taxpayers that did not claim the sales tax deduction.
- Taxpayers that improperly claimed a "dual benefit" for both the tuition and fees deduction and the education credit.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division:

- Ensure that the computer systems are programmed to identify taxpayer returns claiming the Qualified Mortgage Insurance Premiums deduction with Adjusted Gross Income that exceeds the maximum phase-out limitations and taxpayer returns claiming Individual Retirement Account deductions for taxpayers age 70½ or older.
- Continue to inform taxpayers that they are eligible for a sales tax deduction if they itemize and do not claim a State income tax deduction (if the sales tax deduction is extended). Also, consider calculating the sales tax deduction for taxpayers if it is not claimed or sending a notice to affected taxpayers.
- Revise or verify the computer programming to ensure all taxpayers claiming a dual benefit are identified (if the tuition and fees deduction is extended).

In response to the report, IRS management agreed with two recommendations, partially agreed with one recommendation, and disagreed with one recommendation. The IRS plans to update its programs to identify taxpayer returns which improperly claim the Qualified Mortgage Insurance Premium deduction. When the Adjusted Gross Income exceeds the threshold, paper tax returns would be forwarded to the Error Resolution System for correction and electronically filed tax returns would be rejected. To ensure employees are correctly addressing cases identified where taxpayers improperly claimed a "dual benefit" for both the tuition and fees deduction and the Education Credit, additional procedures were implemented.

IRS management did not agree to update computer programs to identify taxpayer returns claiming Individual Retirement Account deductions for taxpayers age 70½ and older because math error authority cannot be used for this condition. However, the IRS did agree to use an alternative method to identify these taxpayers. The IRS agreed to continue to inform taxpayers of eligibility for the sales tax deduction and plans to add a cautionary statement to a tax form, similar to the one added in 2006, but did not agree to calculate the sales tax deduction for the taxpayer or to send a notice.

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/200840183fr.pdf.

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