Recovery Accountability & Transparency Board
Independent Advisory Panel Open Meeting

Jan. 25, 2011
Annapolis, Maryland

REMARKS BY J. RUSSELL GEORGE, the Treasury Inspector General for Tax Administration:

Thank you, Glen, and thank you, Chris. I appreciate the opportunity to appear before the advisory panel to provide an update on our recent work concerning Recovery Act waste, fraud, and abuse.

As you know, the Treasury Inspector General for Tax Administration, or TIGTA, has oversight responsibility for the Internal Revenue Service (IRS) and for the IRS's implementation of the tax provisions of the American Recovery and Reinvestment Act.

The 56 (fifty-six) tax provisions the IRS is charged with implementing cost a total of $326 billion. This breaks down as roughly $252 billion in individual taxpayer provisions and about $74 billion in business taxpayer provisions.

Most of the tax provisions became effective in Fiscal Year 2010.

Since September 2009, TIGTA has issued 19 (nineteen) final reports addressing various aspects of the Recovery Act.

These 19 (nineteen) final reports have made 40 recommendations to address identified waste, fraud, and abuse, involving more than $189 million in cost savings, increased revenue and revenue protection, and taxpayer rights and entitlements. We also have in process another nine (9) Recovery Act audits, which we expect to finalize during Fiscal Year 2011.

This body of work affects some 13.5 million taxpayers.

The panel requested that I give you some of the highlights of our most recent reports, so allow me to concentrate on those.

First, our work on the First-Time Homebuyer credit documented a significant amount of fraudulent and erroneous payments. Due to the large cost of this credit -- some $27 billion – we completed a series of reports so that the IRS could fix problems quickly. Our first report, issued in September 2009, found that more than 19,000 taxpayers claimed $139 million in credits for homes they had not yet purchased.

Our second report on the First-Time Homebuyer credit, issued in June 2010, found that more than 14,000 taxpayers had received erroneous credits totaling nearly $27 million dollars. These included:

> Roughly $18 million that went to over 2,500 taxpayers for homes purchased prior to the dates allowed by law;
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> $9 million went to about 1,300 prisoners who were incarcerated at the time they reported that they purchased their homes. Of those, 241 prisoners were serving life sentences.
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> And finally, more than 10,000 taxpayers received credits for homes that were also claimed by other taxpayers. In one case, TIGTA found that 67 taxpayers were using the same home to claim the credit.

Some of the improper payments involved IRS employees. Those cases were referred to our Office of Investigations, which is responsible for investigating all allegations of IRS employee misconduct.

The Recovery Act news for the IRS got a little better in June and July of last year. In June, we published an audit report that found the IRS's implementation of the five-year net operating loss carryback claim provision was generally effective. In July, we issued a report finding that the IRS generally processed and administered Build America Bond subsidy payments accurately and timely.

But in late July, TIGTA issued a report finding that Recovery Act procurements both awarded and planned by the IRS may be at risk due to inadequate oversight by the Service.

In August, our third report on the First-Time Homebuyer credit found additional problems, such as incorrect purchase dates and deceased individuals claiming the credit.

In September, TIGTA reported that the IRS has made improvements in its oversight of funds provided by the Recovery Act. However, our report concluded that if the IRS's contract oversight is not operating effectively, Recovery Act procurements are at risk.

At the end of September, our report on the 2010 Filing Season documented the extent of some of the Recovery Act problems and inadequate controls by analyzing taxpayer returns and refunds.

We found that approximately 24 million errors were made by taxpayers and the IRS, resulting in more than 125,000 individuals receiving nearly $111 million in erroneous Recovery Act-related benefits. This included:

- Roughly $30 million in Making Work Pay and Government retiree credits;
- Approximately $16 million in erroneous Plug-In Electric Vehicle credits; and
- Approximately $66 million in erroneous First-Time Homebuyer credits.

Verifying eligibility for certain new Recovery Act tax benefits was a challenge for the IRS during the 2010 Filing Season.

Finally, another report issued in September of last year found that the IRS successfully and promptly expanded the Recovery Act's health coverage tax credit provisions. The IRS received $780 million under the Recovery Act to increase the Federal Government's portion of health premiums paid from 65 to 80 percent.

Going forward, the IRS will have difficulty handling significant increases in the number of monthly enrolled participants.

It is imperative that the IRS ensure that the comprehensive strategy it is currently developing for administering these credits identifies taxpayers who received credits erroneously or inappropriately, and requires their repayment.

These are the highlights of our recent work on the Recovery Act. While overall the IRS has done its best to implement this complicated new law in record time, it has proven to be a significant challenge for them.

We will continue to keep a close eye on Recovery Act implementation this year.