



Treasury Inspector General for Tax Administration

PROCESSES TO RESOLVE BUSINESS TAXPAYERS' UNDELIVERABLE REFUNDS NEED TO BE STRENGTHENED

Issued on August 24, 2007

Highlights

Highlights of Report Number: 2007-30-111 to the Internal Revenue Service Commissioner for the Wage and Investment Division and the Chief Information Officer.

IMPACT ON TAXPAYERS

Some business taxpayers' refunds were undeliverable, creating a credit balance situation for these taxpayers. Improper resolution of credit balance accounts can result in significant burden to taxpayers who may not receive refunds timely and increased interest costs to the Federal Government.

WHY TIGTA DID THE AUDIT

This audit was initiated to identify conditions creating credit balances in accounts of business taxpayers and to determine whether there were areas where the Internal Revenue Service (IRS) could improve resolution of these accounts. As of December 31, 2005, IRS records of business taxpayers included approximately 11,000 accounts for which a change of address was entered and the account reflected an undeliverable refund and a credit balance greater than \$1,000. Credit balances on these accounts totaled approximately \$148 million.

This audit focused on accounts with undeliverable refunds to determine how they were affected by the processing of business taxpayers' address changes. Because undeliverable refunds include checks not cashed by taxpayers within a year, TIGTA also attempted to determine whether the refunds had been issued in error.

WHAT TIGTA FOUND

In 25 percent of the accounts TIGTA sampled, the IRS had in its possession tax returns or other documents with more current address information than that reflected on the accounts of these business taxpayers. This information could have been used to ensure that taxpayers received the refunds to which they were entitled. Also, the IRS missed opportunities to assess the proper tax and resolve

incorrect credits. As a result, estimated credits totaling approximately \$10.4 million on 440 accounts are potentially incorrect.

In addition, because of the method it used to perfect certain address information, the IRS reissued an estimated 8,300 undeliverable refunds totaling approximately \$85 million without obtaining new addresses. Finally, due to a systemic problem, the IRS may have paid unnecessary interest totaling approximately \$2.6 million on 260 refunds reissued from accounts with previously undelivered refunds without first determining whether additional interest was due.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Commissioner, Wage and Investment Division, review undeliverable refunds of business taxpayers to determine when it would be beneficial for employees to verify addresses reported on tax returns against the IRS' records; perform adequate research on accounts with uncashed refund checks to determine whether credits were claimed, additional taxes are due, or whether payments may have been misapplied; coordinate with the Chief Information Officer to address the design of the program that perfects street addresses on business taxpayers' addresses to ensure it does not reissue previously undelivered refunds; and ensure the automatic transfer of credit balances and subsequent reinstatement of the credits does not cause an automatic recomputation of interest on reissued refunds.

In their response to the report, IRS officials agreed with three of the four recommendations. The IRS agreed to review the sample cases to determine how often a better address is found and to determine whether procedures need to be changed, added, or reinforced. Also, programmers are currently working to correct the problem with the program that was intended to prevent the payment of additional interest on reissued refunds.

IRS management disagreed with our specific recommendation to use a transaction code other than the address change transaction code to perfect street addresses, but proposed an alternative solution of using this transaction code and combining it with a unique date. In TIGTA's opinion, this action should correct the condition cited.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200730111fr.pdf>

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