TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

RECOVERY ACT

The Internal Revenue Service Faces Significant Challenges in Verifying Eligibility for the First-Time Homebuyer Credit

September 29, 2009

Reference Number: 2009-41-144

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

2(f) = Risk Circumvention of Agency Regulation or Statute

Phone Number | 202-622-6500
Email Address | inquiries@tigta.treas.gov
Web Site | http://www.tigta.gov

HIGHLIGHTS

WHY TIGTA DID THE AUDIT

Section 1006 of the American Recovery and Reinvestment Act of 2009 revised and extended the First-Time Homebuyer Credit (Credit) provided for in the Housing and Economic Recovery Act of 2008. Taxpayers qualifying for the revised Credit may claim the $8,000 Credit on either their Tax Year 2008 or 2009 individual income tax returns. The overall objective of this review is to determine whether the Internal Revenue Service (IRS) has controls in place that effectively identify erroneous claims for the Credit.

IMPACT ON TAXPAYERS

The First-Time Homebuyer Credit as revised is a refundable tax credit. The Joint Committee on Taxation estimated that more than $4.3 billion more would be paid to first-time homebuyers in Fiscal Years 2009 and 2010 as a result of the revisions in the American Recovery and Reinvestment Act of 2009.

The President of the United States has called on Federal agencies to ensure that recovery funds are used for authorized purposes and that every step is taken to prevent fraud, waste, error, and abuse. The IRS faces significant challenges to ensure that recovery funds it administers are used for authorized purposes.

WHAT TIGTA FOUND

The IRS developed controls to identify many questionable claims for the Credit. However, some key controls were missing to prevent individuals from erroneously claiming the Credit. Despite recommendations made in our November 25, 2008, memorandum as part of a prior audit, the IRS did not use information provided on the First-Time Homebuyer Credit (Form 5405) to verify eligibility requirements to claim the Credit and did not require taxpayers to provide documentation to substantiate the purchase of a home. As a result, TIGTA identified 19,351 Tax Year 2008 electronically filed tax returns on which taxpayers claimed Credits totaling over $139 million for homes that had not yet been purchased.

In addition, taxpayers who appear not to be first-time homebuyers (based on their prior tax return information) were claiming the Credit. Many taxpayers will be identified by recently implemented IRS filters and subject to pre-refund audits; however, TIGTA identified 70,005 taxpayers whose tax returns were processed prior to the implementation of these filters.

Also, 48,580 taxpayers who may not have been aware of the changes to the Credit included in the American Recovery and Reinvestment Act of 2009 did not claim the full amount to which they were entitled.

RECOMMENDATIONS AND IRS RESPONSE

The IRS should address questionable claims for the Credit (such as taxpayers claiming the Credit before purchasing a home or when they were not first-time homebuyers) and recover the Credit from taxpayers as warranted. The IRS should also monitor accounts of taxpayers who purchased homes in Calendar Year 2009 and claimed Credits of $7,500 to determine if the taxpayers amend their returns. If not, the IRS should contact these taxpayers to inform them that they may be entitled to an additional refund if the purchase price of their home was greater than $75,000.

In its response to the report, the IRS agreed to our recommendations and plans to take corrective actions to address them.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 29, 2009

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION
COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Interim Audit Report – The Internal Revenue Service Faces Significant Challenges in Verifying Eligibility for the First-Time Homebuyer Credit (Audit # 200940138)

This report presents the interim results of our review to determine whether the Internal Revenue Service (IRS) has controls in place that effectively identify erroneous claims for the First-Time Homebuyer Credit (Credit). Our final report on this subject will be issued in the first quarter of Calendar Year 2010 and will include updated results. The audit addresses the IRS major management challenge of Processing Tax Returns and Implementing Tax Law Changes and presents selected information related to the IRS implementation of Section 1006 of the American Recovery and Reinvestment Act of 2009 (ARRA).[1]

The ARRA provides separate funding to the Treasury Inspector General for Tax Administration through September 30, 2013, to be used in oversight activities of IRS programs. This audit is being conducted using ARRA funds.

The IRS questioned some of the conclusions articulated in the report. We would like to comment on two of the issues raised by the IRS and explain that the President's mandate with regard to stimulus payments is to prevent fraud, and not simply minimize it or address it after it has occurred.

[1] Pub. L. No. 111-5, 123 Stat. 115.

The IRS questioned a recommendation made in a prior audit[2] to require homebuyers to attach documentation to their return to support their claim for the Credit, stating that the law as passed by Congress does not provide the IRS the authority to reject the claim based on insufficient documentation—an audit is required to disallow the claim. The IRS questioned our conclusion that attaching paper documentation would achieve a better outcome.

In our opinion, requiring taxpayers to provide documentation would discourage abuse of the Credit before it occurs, much in the same way that requiring documentation to substantiate certain noncash charitable contributions was designed to discourage abuse. Further, taxpayers would not have been able to claim the Credit for future purchases because they would have no documentation to provide.

Although the IRS does not have authority to reject claims for the Credit made by taxpayers who do not provide documentation, it does, as it stated, have the authority to audit those claims. The fact that a taxpayer could not provide requested documentation would be a strong indicator that the claim for the Credit was highly questionable and may warrant a pre-refund audit.

The IRS also contends that our statement that the IRS improperly paid $140 million to taxpayers claiming the Credit for future purchases was premature because the taxpayers may ultimately purchase a home. While we agree that some may ultimately qualify for the Credit, the number cannot yet be estimated. Regardless, the amount improperly paid will not change. At the time the IRS paid the Credit to these taxpayers, the taxpayers did not qualify. The law does not provide for prepayment of these Credits and the IRS, by making these payments, did not properly administer the tax law, regardless of whether or not the taxpayers will subsequently purchase a home. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-5916.

---

[2] *The 2009 Filing Season Was Successful Despite Significant Challenges Presented by the Passage of New Tax Legislation* (Reference Number 2009-40-142, dated September 21, 2009). The filing season is the period from January through mid-April when most individual income tax returns are filed.

Table of Contents

Background....................Page 1

Results of Review....................Page 3

Programming Was Developed to Reject Certain Erroneous Claims for the First-Time Homebuyer Credit....................Page 3

The First-Time Homebuyer Credit (Form 5405) Was Not Used to Verify Eligibility and No Documentation Was Required to Substantiate the Purchase of a Home....................Page 3

Recommendation 1:....................Page 5

Recommendation 2:....................Page 6

Some Taxpayers Who Appear Not to Be First-Time Homebuyers Are Claiming the First-Time Homebuyer Credit....................Page 6

Recommendation 3:....................Page 7

First-Time Homebuyer Credits Were Claimed by Taxpayers Under 18 Years of Age....................Page 8

Recommendation 4:....................Page 8

First-Time Homebuyer Credits Were Claimed by Taxpayers Filing Tax Returns With Individual Taxpayer Identification Numbers....................Page 9

Taxpayers Claiming Credits on Amended Returns Should Be Checked for Prior Home Ownership Before Refunds Are Issued....................Page 10

Taxpayers May Be Unaware of the Changes to the First-Time Homebuyer Credit....................Page 11

Recommendation 5:....................Page 11

Recommendation 6:....................Page 12

Appendices

Appendix I – Detailed Objective, Scope, and Methodology ....Page 13

Appendix II – Major Contributors to This Report.......................................Page 17

Appendix III – Report Distribution List ....Page 18

Appendix IV – Management's Response to the Draft Interim Report ....Page 19

Abbreviations

ARRA	American Recovery and Reinvestment Act of 2009
IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
U.S.	United States

Background

Section 1006 of the American Recovery and Reinvestment Act of 2009 (ARRA)[1] revised and extended the First-Time Homebuyer Credit (Credit) provided for in the Housing and Economic Recovery Act of 2008.[2] The Housing and Economic Recovery Act of 2008 allowed taxpayers who purchase a principal residence after April 8, 2008, and before July 1, 2009, to claim a Credit equal to 10 percent of the purchase price of the home, limited to $7,500. The Credit, as expressed in this Act, served as an interest-free loan to be paid back over a 15-year period beginning 2 years after the Credit was claimed. The new provision contained in Section 1006 of the ARRA extended the Credit to include purchases made on or after January 1, 2009, and before December 1, 2009, increased the maximum Credit to $8,000, and eliminated the repayment requirements as long as the taxpayer retains the residence for 36 months. Taxpayers qualifying for the revised Credit may claim the $8,000 Credit on either their Tax Year 2008 or 2009 individual income tax returns.

The President of the United States (U.S.) has stated that every taxpayer dollar spent on the economic recovery must be subject to unprecedented levels of transparency and accountability. The President has called on Federal agencies to ensure that recovery funds are used for authorized purposes and every step is taken to prevent instances of fraud, waste, error, and abuse.

Congress allocated $13.6 billion for the First-Time Homebuyer Credit in the Housing and Economic Recovery Act of 2008. The Joint Committee on Taxation estimated that more than $4.3 billion more would be paid to first-time homebuyers in Fiscal Years 2009 and 2010 as a result of the ARRA. As of July 17, 2009, more than 1.1 million tax returns claiming more than $8 billion in First-Time Homebuyer Credits had been processed.

This interim audit report presents results for audit work completed as of July 25, 2009, and assesses Internal Revenue Service (IRS) actions to identify and address erroneous claims for the First-Time Homebuyer Credit. The report also contains selected information related to the First-Time Homebuyer Credit from our audit of the IRS 2009 Filing Season.[3] Our final report on this subject will be issued in the first quarter of Calendar Year 2010 and will include updated results.

[1] Pub. L. No. 111-5, 123 Stat. 115.
[2] Pub. L. No. 110-289.
[3] *The 2009 Filing Season Was Successful Despite Significant Challenges Presented by the Passage of New Tax Legislation* (Reference Number 2009-40-142, dated September 21, 2009). The filing season is the period from January through mid-April when most individual income tax returns are filed.

This review is being performed onsite at the IRS Ogden, Utah, Campus.[4] It includes review of individual income tax returns filed nationwide as well as analysis of data provided by the IRS Wage and Investment Division Headquarters in Atlanta, Georgia; the Submission Processing function offices in Lanham, Maryland, and Cincinnati, Ohio; and the Submission Processing Sites in Fresno, California; Austin, Texas; and Ogden, Utah. We will provide more detailed objectives and scope in our final report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

[4] The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

Results of Review

Programming Was Developed to Reject Certain Erroneous Claims for the First-Time Homebuyer Credit

The IRS developed the new First-Time Homebuyer Credit (Form 5405) for eligible taxpayers to calculate and claim the Credit. This form requires the taxpayer to provide the amount of Credit being claimed, the address of the home qualifying for the Credit, and the date the home was purchased. The form was updated after the passage of the ARRA to reflect the increased amount of the Credit, as well as to change the allowable period for purchasing a home.

In an attempt to ensure accuracy of claims for the First-Time Homebuyer Credit, the IRS developed programming that rejects electronically filed tax returns or forwards paper tax returns to the Error Resolution function with the following conditions:

- Claims in excess of the maximum allowable Credit.
- Claims in excess of allowable amounts for those taxpayers with Adjusted Gross Income exceeding income limitations.
- Claims without a Form 5405 attached.

During our review of the IRS 2009 Filing Season, we confirmed that IRS programming was effectively identifying the above conditions. However, some key controls were missing to prevent an individual from erroneously or fraudulently claiming the Credit and receiving an erroneous refund of up to $8,000.

The First-Time Homebuyer Credit (Form 5405) Was Not Used to Verify Eligibility and No Documentation Was Required to Substantiate the Purchase of a Home

The IRS has been charged to ensure that recovery funds are used for authorized purposes and every step is taken to prevent instances of fraud, waste, error, and abuse. We found that information provided on Form 5405 could be used to computer verify certain eligibility requirements such as the date of purchase and location of the residence, but this information was not entered into IRS computers from paper returns. Further, date of purchase information from electronic Forms 5405 was not utilized to verify eligibility for the Credit until late in the 2009 Filing Season.

In addition, the IRS did not request that taxpayers attach some form of documentation to tax returns to verify eligibility before the Credits were allowed. For example, attaching the U.S. Department of Housing and Urban Development Settlement Statement (Form HUD-1) received at closing would enable the IRS to verify the purchase of a residence, the date purchased, the purchase price, and the location of the residence. Although it would not verify the taxpayer as a first-time homebuyer, it would provide some level of deterrence for ineligible taxpayers.

In a memorandum dated November 25, 2008, as part of a prior audit,[5] we recommended the IRS ensure that information on each line of the Form 5405 was transcribed for paper returns and that the information from Form 5405 be used to validate claims for the First-Time Homebuyer Credit. We also recommended the IRS require that taxpayers attach documentation to substantiate a home purchase and verify eligibility for the Credit.

The IRS disagreed with both recommendations. Because of the extensive requirements for programming and the late passage of the first bill containing this Credit, IRS management did not request or implement the transcription of the Form 5405. They responded that other strategies being employed would mitigate our concerns. IRS management stated that a requirement to supply documentation during the processing of the return would be burdensome for both the taxpayer and the IRS. Even if the recommended documentation was not provided, the IRS does not have math error authority to disallow the Credit during processing. The IRS also noted that requiring documentation would preclude many taxpayers from electronic filing.

We identified 19,351 Tax Year 2008 electronically filed tax returns on which taxpayers claimed the First-Time Homebuyer Credit for a home which had not yet been purchased, but reportedly would be in the future. Had the IRS timely implemented our recommendations to both capture and utilize the purchase date from the Form 5405, these claims would not have been paid. The amount of the Credits inappropriately claimed totaled $139,555,174. We have not yet determined the number of paper returns with similar claims.

During the 2009 Filing Season, the IRS implemented computer programming to reject claims electronically filed with a future purchase date. Controls were also implemented to identify and disallow claims filed on paper tax returns with future purchase dates. However, IRS management indicated they have not decided whether to go back and review or correct the 19,351 electronically filed tax returns or try to identify paper returns meeting the same criteria that may have been processed before controls were put into place. IRS management believes that the filters and controls they have put into place to identify post-refund erroneous claims should identify all erroneous claims, including those with home purchase dates in the future.

---

[5] *The 2009 Filing Season Was Successful Despite Significant Challenges Presented by the Passage of New Tax Legislation* (Reference Number 2009-40-142, dated September 21, 2009).

We believe that the IRS' plans to address this issue are not adequate. 2(f) [redacted]. This process allows taxpayers the use of money to which they were not entitled, and may never be entitled. In addition, the criteria used by the IRS 2(f) [redacted] do not ensure that a home purchase was made. 2(f) [redacted]

Recommendations

Recommendation 1: The Director, Compliance, Wage and Investment Division, and Director, Campus Compliance, Small Business/Self-Employed Division, should initiate actions to determine whether those 19,351 taxpayers known to have claimed the Credit for a future home purchase have actually purchased a home. If not, steps should be taken to recover the erroneous Credits.

> ***Management's Response:*** The IRS agreed with this recommendation. The IRS has identified the issue of taxpayers claiming the Credit for future home purchases as an important element of the overall examination and compliance plan. The Director, Accounts Management, Customer Account Services, Wage and Investment Division, agreed to flag these tax returns for necessary follow up with the taxpayers involved.
>
> ***Office of Audit Comment:*** While the IRS agreed with this recommendation, in its general comments on this report, it made some comments on this section which we believe warrant additional clarification. The IRS questioned the recommendation made in our prior audit to require homebuyers to attach documentation to their return to support their claim for the Credit, stating that the law as passed by Congress does not provide the IRS the authority to reject the claim based on insufficient documentation—an audit is required to disallow the claim. The IRS questioned our conclusion that attaching paper documentation would achieve a better outcome.
>
> The President's mandate is to prevent fraud, and not simply minimize it or address it after it has occurred. Requiring taxpayers to provide documentation would discourage abuse of the Credit before it occurs, much in the same way that requiring documentation to substantiate certain noncash charitable contributions was designed to discourage abuse. Taxpayers would not have been able to claim the Credit for future purchases because they would have no documentation to provide.
>
> Although the IRS does not have authority to reject claims for the Credit made by taxpayers who do not provide documentation, it does have the authority to audit those claims. The fact that a taxpayer could not provide requested documentation would be a strong indicator that the claim for the Credit was highly questionable and may warrant a pre-refund audit.

The IRS also contends that our statement that the IRS improperly paid out $140 million to taxpayers claiming the Credit for future purchases was premature because the taxpayers may ultimately purchase a home. While we agree that some may ultimately qualify for the Credit, the number cannot yet be estimated. Regardless, the amount improperly paid will not change. At the time the IRS paid the Credit to these taxpayers, the taxpayers did not qualify. The law does not provide for prepayment of these Credits and the IRS by making these payments did not properly administer the tax law, regardless of whether or not the taxpayers will subsequently purchase a home.

Recommendation 2: The Director, Compliance, Wage and Investment Division, and the Director, Campus Compliance, Small Business/Self-Employed Division, should perform a review to determine the extent to which these improper claims occurred on paper-filed returns. If warranted, the IRS should identify all paper-filed returns claiming First-Time Homebuyer Credits for future purchases and ensure the purchases have taken place or the Credits are recovered.

Management's Response: The IRS agreed with this recommendation. The Director, Compliance, Wage and Investment Division, and the Director, Campus Compliance, Small Business/Self-Employed Division, will develop a plan to determine and assess the compliance risk associated with paper-filed returns claiming the Credit for future purchases.

Some Taxpayers Who Appear Not to Be First-Time Homebuyers Are Claiming the First-Time Homebuyer Credit

We developed computer programs to identify taxpayers who may not have qualified as first-time homebuyers, but claimed First-Time Homebuyer Credits on their Tax Year 2008 tax returns. As of July 25, 2009, using these computer programs, we identified 73,799 First-Time Homebuyer Credits attached to an original U.S. Individual Income Tax Return (Form 1040), totaling almost $504 million, that were claimed by taxpayers who had indications of prior home ownership within 3 years.[6]

The law defines a "first-time homebuyer" as any individual (and spouse, if married) who had no ownership interest in a principal residence during the 3-year period prior to the purchase of the home to which the Credit applies. The 73,799 taxpayers had entered information on their individual income tax returns for 1 of the prior 3 years indicating they may have owned a home. These entries included deductions for home mortgage interest, real estate taxes, deductible points, and qualified mortgage insurance premiums. While these entries do indicate home ownership, the homes involved may or may not have been the taxpayer's principal residence, so

[6] Some of these questionable claims were filed by IRS employees. We referred these cases to the Treasury Inspector General for Tax Administration Office of Investigations.

the deductions do not automatically disqualify the taxpayer from receiving the First-Time Homebuyer Credit. However, we believe they warrant scrutiny by the IRS.

The IRS reported that as of May 17, 2009, it had initiated the use of computerized filters to identify such cases for examination. It plans to work the cases identified by these filters before the refund is paid. In such cases, the portion of the taxpayer's refund associated with the First-Time Homebuyer Credit is frozen until the IRS Examination function verifies that the taxpayer qualifies for the Credit. The IRS reported that as of May 24, 2009, 10,000 pre-refund cases totaling $75 million were stopped. In addition, during the period that it was developing its computerized filters, the IRS identified and referred 10,000 questionable cases to the Small Business/Self-Employed Division and Wage and Investment Division campuses for examination to be worked on a post-refund basis.

We identified 70,005 questionable claims for First-Time Homebuyer Credits, totaling more than $479 million, received by the IRS prior to the initiation of its computerized pre-refund examination filters. We reviewed the tax accounts of a random sample of 50 of these taxpayers. None of the accounts had received scrutiny from either the Questionable Refund or the Examination functions relative to their claims for the First-Time Homebuyer Credit.

The IRS has not made a decision regarding whether or not the claims for these 70,005 Credits will be subject to post-refund examinations. We found that 12,023 of these 70,005 Credits were claimed by taxpayers who had claimed the Residential Energy Credit on 1 of their prior 3 tax returns. This increases the likelihood that the taxpayers owned a principal residence and do not qualify for the First-Time Homebuyer Credit since this Credit is generally only available for qualified expenditures made on a taxpayer's principal residence.[7]

Recommendation

Recommendation 3: The Director, Compliance, Wage and Investment Division, and Director, Campus Compliance, Small Business/Self-Employed Division, should initiate actions to recover the First-Time Homebuyer Credit when appropriate from taxpayers who had previously claimed the Residential Energy Credit, the District of Columbia First-Time Homebuyer Credit, or the Mortgage Interest Credit on their individual income tax returns and should develop a plan to review the other questionable claims that were processed prior to the IRS filters being implemented.

> ***Management's Response:*** The IRS agreed with this recommendation and stated that currently all returns are screened for questionable First-Time Homebuyer Credit

[7] We are in the process of identifying taxpayers who claimed the District of Columbia First-Time Homebuyer Credit or the Mortgage Interest Credit in the prior 3 years as well. Both of these credits apply only to a principal residence.

indicators and stored in a database that will be used to select cases for examination in accordance with the IRS' overall compliance plan.

Office of Audit Comment: Despite specific comments to the contrary made to auditors, the IRS indicates in its response that it had already made the decision to perform post-refund examinations on questionable claims for the First-Time Homebuyer Credit processed prior to IRS filters being implemented. Further, the IRS' corrective action appears to address only returns currently being processed rather than those processed prior to the implementation of the filters. We will follow up with the IRS to clarify its corrective actions regarding examinations of returns processed prior to implementation of its filters.

First-Time Homebuyer Credits Were Claimed by Taxpayers Under 18 Years of Age

Through July 25, 2009, we identified 582 taxpayers under 18 years of age who claimed almost $4 million in First-Time Homebuyer Credits. The youngest taxpayers receiving the Credit were 4 years old. Contract law generally exempts children under the age of 18 from being bound by the terms of a contract. Therefore, it is unlikely that these taxpayers would have entered into an arms-length transaction for the purchase of a home.

As of May 17, 2009, the IRS implemented examination filters to identify potentially erroneous claims for the First-Time Homebuyer Credit. The age of the taxpayer receiving the First-Time Homebuyer Credit was not one of the specific filters implemented by the IRS to screen claims for the Credit on original filed returns. The IRS believed that its filter identifying taxpayers claiming the Credit who had Adjusted Gross Incomes below certain levels would catch these questionable claims.

One hundred sixty-five (28 percent) of the 582 taxpayers under age 18 that we identified claiming the Credit did not meet the IRS' Adjusted Gross Income screening criteria. In 64 of these cases, other IRS filters flagged the claim for further scrutiny. However, 101 of the claims for the First-Time Homebuyer Credit made by children under the age of 18 did not meet any of the IRS screening criteria.[8] The total amount of these Credits was $626,779.

Recommendation

Recommendation 4: The Director, Compliance, Wage and Investment Division, and Director, Campus Compliance, Small Business/Self-Employed Division, should add an age to

[8] Sixty-seven of these cases were filed before the IRS screening criteria were put into place, but would not have met the criteria had it been implemented at the time the returns were filed.

the filters for pre-refund examinations of claims for First-Time Homebuyer Credits filed with original returns.

> ***Management's Response:*** The IRS agreed with this recommendation. The Director, Compliance, Wage and Investment Division, and the Director, Campus Compliance, Small Business/Self-Employed Division, will develop additional age filters to capture residual returns not capture by existing filters.

First-Time Homebuyer Credits Were Claimed by Taxpayers Filing Tax Returns With Individual Taxpayer Identification Numbers

The IRS issues Individual Taxpayer Identification Numbers (ITIN) to help individuals comply with the U.S. tax laws and to provide a means to efficiently process and account for tax returns. Only individuals who have valid filing requirements or are filing tax returns to claim refunds of over-withheld taxes are eligible to receive ITINs. ITINs are issued regardless of an individual's immigration status. In Calendar Year 2006, resident aliens accounted for 93 percent of the total number of ITINS issued.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996[9] prohibits aliens residing without authorization in the U.S. from receiving most[10] Federal public benefits and defines a Federal public benefit as:

> *Any grant, contract, loan, professional license, or commercial license provided by an agency of the United States or by appropriated funds of the United States; and any retirement, welfare, health, disability, public or assisted housing, postsecondary education, food assistance, unemployment benefit, or any other similar benefit for which payments or assistance are provided to an individual, household, or family eligibility unit by an agency of the United States or by appropriated funds of the United States.*

The ARRA specifically denies the First-Time Homebuyer Credit to individuals who are nonresident aliens. Foreign individuals are considered a resident alien if they meet one of two tests for the calendar year—the *green card test* or the *substantial presence test*.[11] An individual meets the *green card test* if at any time during the calendar year he or she was a lawful permanent resident of the U.S. according to the immigration laws (and this status has not been rescinded or abandoned). These individuals are able to obtain Social Security Numbers, but depending on their immigration status, the Social Security Number may be a nonwork Social Security Number. An individual meets *the substantial presence test* if he or she was physically present in the U.S. for at least 31 days during the current year and 183 days during the 3-year

[9] P.L. 104-193 Section 401(c).
[10] Except for specified emergency services and programs.
[11] 26 U.S.C. Section 7701.

period that includes the current year and the 2 years immediately before (with some limited exceptions). These individuals may or may not be able to obtain a Social Security Number, depending on their immigration status (some individuals meet both tests). Foreign individuals are considered a nonresident alien for any period they are neither a U.S. citizen nor a U.S. resident alien.

2(f) [redacted]

Through July 25, 2009, we identified 3,238 taxpayers claiming First-Time Homebuyer Credits totaling over $20.8 million on tax returns filed with ITINs.

Taxpayers Claiming Credits on Amended Returns Should Be Checked for Prior Home Ownership Before Refunds Are Issued

Taxpayers have several options to claim the First-Time Homebuyer Credit, one of which is filing an amended tax return. Taxpayers who buy homes after they have already filed their Tax Year 2008 tax returns and purchased them within the designated time frame can file amended returns. The amended tax returns will allow them to claim the Credits on their Tax Year 2008 returns without waiting until next year to claim them on their Tax Year 2009 returns.

We believe that amended returns are also vulnerable to erroneous claims for the First-Time Homebuyer Credits. As part of this review, we recommended on April 29, 2009, that the IRS implement controls to ensure that taxpayers claiming First-Time Homebuyer Credits on amended tax returns have not owned a principal residence within the prior 3 years. We suggested that the IRS perform research of historical taxpayer account data to ensure taxpayers do not have indications of home ownership that would disqualify them from claiming the Credit.

The IRS agreed with our recommendation and stated that it was already in the process of developing criteria to identify amended returns with claims for the First-Time Homebuyer Credit for review by the Examination function. The IRS requested and was provided specific cases and details of our criteria for identifying questionable claims for the Credit. The IRS criteria was incorporated into the Internal Revenue Manual on June 16, 2009. Along with the criteria in the Internal Revenue Manual, the IRS developed an enhancement to its automated tool (xClaim) used to process amended tax returns. The tool was enhanced to automate research of IRS records for indications of prior home ownership over the past 3 years and other predetermined criteria that, if present, make the claim questionable. The IRS reported that the research results will be forwarded to the Campus Examination function along with the amended tax return using the Correspondence Imaging System on a priority basis. The IRS also indicated that the xClaim tool was implemented on June 10, 2009. In the interim, the Examination Classification function reviewed all First-Time Homebuyer Credit claims referred to them by the Submission Processing function for indications of prior home ownership.

Taxpayers May Be Unaware of the Changes to the First-Time Homebuyer Credit

As of July 25, 2009, we identified 48,580 taxpayers who appear to have not claimed or received the full amount of the First-Time Homebuyer Credit to which they may have been entitled. These taxpayers claimed $7,500 rather than $8,000 for homes purchased in Calendar Year 2009. In our opinion, it is highly unlikely that these taxpayers purchased homes for exactly $75,000. The lesser amounts were claimed most likely because either the taxpayers filed before the ARRA was passed or they did not realize that the new law increased the Credit amount to $8,000 for homes purchased in Calendar Year 2009. As of July 18, 2009, only 7,952 (16 percent) of these taxpayers have filed amended returns to claim the additional $500.

The IRS does not plan to contact these taxpayers nor to track whether these taxpayers file amended returns. The IRS believes taxpayers are aware of the additional $500 made available in the ARRA and will amend their returns if warranted. In our opinion, this approach is not consistent with the intent of the ARRA, which is to provide a specified amount to eligible taxpayers to stimulate the economy.

For Tax Year 2007, the IRS developed Information About Economic Stimulus Payments for Social Security, Veterans, and Other Beneficiaries (Package 1040A-3) to provide certain taxpayers with information and examples on how to claim their economic stimulus payments. A similar package informing taxpayers of how to amend their First-Time Homebuyer Credit claims may be beneficial.

We also determined that most of the 48,580 taxpayers did not have their IRS accounts properly coded to indicate that their home was acquired in Calendar Year 2009. This is significant because this is the indicator the IRS will use to distinguish between those taxpayers who must pay the First-Time Homebuyer Credit back (Housing and Economic Recovery Act of 2008) and those that will not be required to do so (the ARRA). Unless the IRS properly codes its accounts, these taxpayers will eventually be subject to IRS collection procedures.

We reported this issue as part of our audit of the IRS 2009 Filing Season and recommended that the IRS take steps to accurately code these taxpayers' accounts to properly indicate whether or not the taxpayers are required to repay their Credits.

Recommendations

Recommendation 5: The Director, Accounts Management, Wage and Investment Division, should monitor the accounts of taxpayers known to have purchased homes in Calendar Year 2009 who claimed First-Time Homebuyer Credits of $7,500 to determine if the taxpayers amend their returns. If the taxpayers do not amend their returns, the IRS should contact these taxpayers to inform them that they may be entitled to an additional refund if the purchase price of their home was greater than $75,000.

> ***Management's Response:*** The IRS agreed with this recommendation. The Director, Accounts Management, Customer Account Services, Wage and Investment Division, will send notices to taxpayers purchasing homes in Calendar Year 2009 and claiming a Credit of $7,500, if those taxpayers have not amended their returns, to inform the taxpayers that they may be entitled to an additional refund.
>
> ***Office of Audit Comment:*** In conversations and emails with Treasury Inspector General for Tax Administration auditors, IRS officials specifically stated they believed taxpayers were aware of the additional $500 made available in the ARRA and would amend their returns if warranted. They further stated that since Form 5405 does not include the purchase price of the new home, the IRS would have to assume the homes cost $75,000 and the Credits claimed by the taxpayers were correct. Therefore, the IRS did not plan to contact these taxpayers to inform them they may be entitled to an additional $500. We acknowledge and applaud the IRS' change of policy.

Recommendation 6: The Director, Tax Forms and Publications, Wage and Investment Division, should consider providing taxpayers with specific information detailing how to amend their tax returns to claim the full amount of the First-Time Homebuyer Credit to which they are entitled.

> ***Management's Response:*** The IRS agreed with this recommendation. The Director, Media and Publications, Customer Assistance, Relationships and Education, Wage and Investment Division, will revise instructions for Form 1040, Amended U.S. Individual Income Tax Return (Form 1040X), and *Your Federal Income Tax For Individuals* (Publication 17), to include information to assist taxpayers in amending their returns if they did not claim the full amount of the Credit to which they were entitled.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit is to determine whether the IRS has controls in place that effectively identify erroneous claims for the First-Time Homebuyer Credit. (In general, this audit is covering post-processing procedures on original returns and both processing and post-processing procedures on amended returns.) At the time of this interim report, the following steps have been completed or are in process (Steps I. and II. were completed as part of Treasury Inspector General for Tax Administration Audit Report, *The 2009 Filing Season Was Successful Despite Significant Challenges Presented by the Passage of New Tax Legislation*, dated September 21, 2009, and the results from these steps were included in this report).[1] To accomplish our objective, we:

I. Computer identified 1,129,480 returns processed with the First-Time Homebuyer Credit (Form 5405) through June 5, 2009, and analyzed 58,741 early filed returns[2] and determined whether certain programming was in place. (To assess the reliability of the computer-processed data, programmers in the Treasury Inspector General for Tax Administration Office of Information Technology validated the data that were extracted, and we verified the appropriate documentation. Judgmental samples were selected and reviewed to ensure that the amounts presented were supported by external sources. As appropriate, data in the selected data records were compared to the physical tax returns to verify that the amounts were supported.)

II. Assessed whether adequate information is provided by the taxpayer and/or transcribed into IRS computer systems and utilized to ensure claims for the Credit can be substantiated.

III. Identified the number of returns that claimed the Credit with a purchase date of the home later than the submission date of the return and determined what the IRS Examination function plans to do with these cases.

    A. Developed computer programs to identify all electronically filed returns with First-Time Homebuyer Credit claims with a submission date prior to the acquisition date of the home and validated the data by comparing 50 taxpayer accounts to information found on the IRS Individual Master File.[3]

[1] Although these steps were not part of the audit work completed as part of this review, we are including them in the detailed scope to provide the reader a reference to what steps were completed to support our conclusions.
[2] Returns processed the week ending January 30, 2009.
[3] The IRS database that maintains transactions or records of individual tax accounts.

B. Summarized the data to show how many erroneous claims were submitted with a "future" acquisition date and quantified the dollars claimed.

C. Discussed with IRS Examination function management their plans for addressing these homebuyer claims and why these claims were allowed.

IV. Developed a computer program to identify taxpayers erroneously claiming the First-Time Homebuyer Credit.

A. Determined criteria to identify taxpayers that have owned a home within 3 years of requesting the First-Time Homebuyer Credit (e.g., taxpayers who claimed points, mortgage interest, mortgage insurance, real estate taxes, the Residential Energy Credit, the Mortgage Interest Credit, and/or the District of Columbia First-Time Homebuyer Tax Credit).

B. Developed the computer program to identify taxpayers that met the same criteria listed in Step IV.A. and claimed the First-Time Homebuyer Credit.

C. Evaluated the results of the computer program.

1. Summarized the number of paper and electronic taxpayer claims that were identified by the computer program as potentially erroneous.

2. Assessed the reliability of the program run to accurately identify those taxpayers not qualifying for the Credit by comparing the data from 50 records to information from the Individual Master File.

D. Determined whether the IRS has identified and reviewed (or planned to review) any of the potentially erroneous claims for the First-Time Homebuyer Credit identified by our computer program prior to the initiation of its examination filters.

1. Reviewed the tax accounts of a judgmental sample[4] of 50 taxpayers from the computer data to see if the accounts had received scrutiny from either the Questionable Refund or the Examination functions relative to their claims for the First-Time Homebuyer Credit.

2. Discussed with Examination function management the IRS' plans to work the potentially erroneous claims we identified as post-refund cases.

[4] We selected the 50 cases using a non-statistical random method from our database of taxpayers filing before the IRS filters were in place and who may have previously owned a home.

V. Identified returns where the age of the taxpayer may indicate a possible erroneous claim.

A. Performed a query on the Data Center Warehouse[5] and identified taxpayers younger than age 18 who claimed the First-Time Homebuyer Credit on their return. We validated the data by comparing 30 taxpayer accounts to information found on the IRS Individual Master File.

B. Stratified the returns by age and reviewed any that may indicate the claim is erroneous.

1. Identified 417 taxpayers through July 25, 2009, having an Adjusted Gross Income within the range of the Examination function's filter and reviewed each for examination or criminal investigation indicators.

2. Identified 165 taxpayers through July 25, 2009, with Adjusted Gross Income greater than the Examination function's filter limit and reviewed each for examination or criminal investigation indicators.

VI. Identified claims made by ITIN holders and quantified the results.

A. Performed a Data Center Warehouse query to identify taxpayers with an ITIN and claiming a First-Time Homebuyer Credit.

B. Validated and assessed the reliability of the data by comparing the information from 20 records to the IRS Individual Master File.

VII. Identified IRS controls and programs designed to prevent erroneous First-Time Homebuyer Credit claims on amended returns.

A. Determined the specific programs and filters that the IRS uses to identity case work.

B. Determined the documentation that is required to support the claims, particularly considering President Obama's declaration that every effort should be made to prevent fraud, not just identify it after the fact.

VIII. Determined the IRS' plans for addressing taxpayers that did not claim or receive the proper amount of First-Time Homebuyer Credit (purchased a home in Calendar Year 2009, qualified for $8,000, but only claimed $7,500).

A. Using Treasury Inspector General for Tax Administration computer runs, determined the number of taxpayers that claimed and/or received $7,500 even though they potentially qualified for $8,000 because the home was purchased in Calendar

[5] A collection of IRS databases containing various types of taxpayer account information that is maintained by the Treasury Inspector General for Tax Administration for the purpose of analyzing data for ongoing audits.

Year 2009. We validated the data by comparing 10 taxpayer accounts to information found on the IRS Individual Master File.

B. Determined the number of taxpayers meeting the criteria in Step VIII.A. who filed an amended return for the difference ($500). We determined if the returns were properly identified as taxpayers not having to pay back the Credit (either when originally filed or when amended).

C. Determined the IRS' plans for addressing taxpayers that did not receive the full amount.

Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)
Kyle R. Andersen, Director
Bill R. Russell, Audit Manager
L. Jeff Anderson, Lead Auditor
Levi J. Dickson, Auditor
Laura Paulsen, Auditor
Robert J. Carpenter, Information Technology Specialist
Michele S. Cove, Information Technology Specialist
Arlene Feskanich, Information Technology Specialist
Martha A. Stewart, Information Technology Specialist

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
Director, Compliance, Wage and Investment Division SE:W:CP
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Accounts Management, Wage and Investment Division SE:W:CAS:AM
Director, Reporting Compliance, Wage and Investment Division SE:W:CP:RC
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PRA:PEI
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
Program Manager, Policy and Strategic Planning, Communications, Liaison & Disclosure, Small Business/Self-Employed Division SE:S:CLD:PSP
Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PRA:PEI

Appendix IV

Management's Response to the Draft Interim Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

RECEIVED SEP 15 2009

SEP 15 2009

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr.
Commissioner, Wage & Investment Division

SUBJECT: Draft Interim Audit Report – The Internal Revenue Service Faces Significant Challenges in Verifying Eligibility for the First-Time Homebuyer Credit (Audit # 200940138)

We have reviewed the subject draft report and appreciate your feedback on the IRS' administration of the First-Time Homebuyer Credit (FTHBC). In these very difficult economic times, the FTHBC has made it possible, through July 2009, for over 1.1 million individuals to receive $7.9 billion towards the purchase of their first home. We are also conducting extensive outreach to ensure that eligible taxpayers, who complete the purchase of a home prior to December 1, 2009, claim the credit.

It is important to note that as a tax administrator, the IRS must design processes that serve the needs of compliant taxpayers, in this case people trying to purchase a home during a severe housing market downturn, while at the same time implementing programs to detect and minimize fraud. The IRS welcomes and appreciates the Treasury Inspector General for Tax Administration's (TIGTA's) independent review and perspective on the administration of the program. We appreciate that the report recognizes the substantial effort and analysis that the IRS has devoted to ensuring that the FTHBC is administered in an effective manner.

The IRS does not customarily provide details on its compliance activities and program until after the tax filing season is over. However, because we are concerned that the TIGTA report overstates what can be concluded at this early stage in the process about compliance problems regarding the FTHBC, we are providing details on our audit plans and criminal investigations to make certain it is crystal clear that the IRS will vigorously pursue those who intentionally misuse Recovery Act funds. In summary, the IRS has:

1. Identified 159 possible criminal schemes and has 88 open criminal investigations involving the FTHBC.
2. Completed its first successful prosecution – a guilty plea – of a tax practitioner in Jacksonville, Florida who was accused of falsely claiming the FTHBC.

2

3. Frozen 36,000 refunds totaling over $272 million pending civil examination, and 7,500 refunds totaling over $50 million for review of potential criminal activity.
4. Commenced 76,000 audits of tax returns claiming the FTHBC where there are indications of risk including audits of frozen refunds, post refund returns, and amended claims.

Using data from the initial 76,000 audits, the IRS will analyze the underlying compliance risk arising from returns claiming the FTHBC and adjust its future audit plans accordingly. The IRS has the capacity to shift resources quickly and will not hesitate to significantly increase the number of FTHBC audits if necessary. Examination plans are in process and are being updated frequently to reflect analysis of incoming returns and other data. Any conclusions about overall compliance and program risks are premature.

With regard to the specific issues raised in the report, we outline a more detailed analysis of the facts surrounding those issues, and we respectfully suggest that a fair reading of the facts leads to some different conclusions that are not articulated in the report:

- The report suggests that the IRS should have required homebuyers to attach documentation to the return. It separately notes, but does not connect for the reader, that the law as passed by Congress does not provide the IRS the authority to reject the claim based on insufficient documentation – an audit is required to disallow the claim. Additionally, requiring paper documentation up-front with the tax return would have caused all taxpayers claiming the credit to wait longer for the refund with an additional cost to government for processing. Based on these facts, it is not clear what analysis supports the report's conclusion that attaching paper documentation would achieve a better outcome.
- The report makes the assertion that the IRS has not made a decision regarding whether or not claims with risk indicators will be subject to post-refund examinations. As demonstrated above by the significant compliance activities already underway, this is entirely inaccurate.
- The report notes that almost $504 million in credits were claimed by taxpayers who had indications of prior home ownership within 3 years, and that these taxpayers warrant scrutiny by the IRS. We agree, and as we note above we have a significant number of audits and investigations underway. However, we also note that nothing in this report constitutes conclusive evidence that the credit was improperly claimed. The IRS will pursue those taxpayers who appear to be in violation of the law, but also respects the rights of taxpayers who claim a credit to which they are lawfully entitled.

3

- We find the section of the report related to Individual Taxpayer Identification Numbers (ITINs) confusing, and seek clarification on what TIGTA's analysis demonstrates, and what actions it suggests IRS take. The report provides a statistic that 3,238 taxpayers claimed $20.8 million in FTHBC using ITINs. However, there is no articulation in the report of how this suggests an elevated compliance risk since the law does not preclude resident alien taxpayers using ITINs to claim the credit.
- The report notes that approximately $140 million in credits were paid to taxpayers who indicated a future purchase date for the home, when they should only be eligible after purchasing a home. The report then incorrectly concludes that if the IRS had filtered out these returns then $140 million would not have been paid. That conclusion is premature. While it is true that the IRS should have rejected the claim as improperly filed, if the taxpayer did indeed purchase a home prior to December 1, 2009, and re-filed the claim after the purchase date, the credit would still be paid. The IRS plans to contact these taxpayers to validate their entitlement to the credit but until the contacts have been completed, the net revenue effect of this issue is not clear. However, one can reasonably conclude that the $140 million figure referenced in the report is overstated.
- The report asserts that the IRS does not plan to contact taxpayers who may not have claimed the full credit to which they were entitled. The IRS intends to send notices to taxpayers who appear to be entitled to additional benefits.

Attached are our responses to your specific recommendations. If you have any questions regarding this response please call me at (404) 338-7060, or members of your staff may contact David R. Williams, Director, Electronic Tax Administration and Refundable Credits, at (202) 622-7990.

Attachment

cc: Commissioner, Small Business/Self Employed Division

Attachment

RECOMMENDATION 1: The Director, Compliance, Wage and Investment Division, and Director, Examination, Small Business/Self-Employed Division, should initiate actions to determine whether those 19,351 taxpayers known to have claimed the Credit for a future home purchase have actually purchased a home. If not, steps should be taken to recover the erroneous Credits.

CORRECTIVE ACTION
The IRS agrees with this recommendation and has identified this issue as an important element of the overall examination and compliance plan.

IMPLEMENTATION DATE
These claims are being reviewed and flagged for necessary follow-up with the taxpayers involved. Compliance actions, as needed, will be included in our overall plan that will begin immediately and continue into 2010. The IRS will conduct an extensive assessment of the first round of compliance activities performed, as well as overall filing trends, and update its overall compliance plan by June 15, 2010.

RESPONSIBLE OFFICIAL
Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2: The Director, Compliance, Wage and Investment Division, and Director, Examination, Small Business/Self-Employed Division, should perform a review to determine the extent to which these improper claims occurred on paper filed returns. If warranted, the IRS should identify all paper filed returns claiming First-Time Homebuyer Credits for future purchases and ensure the purchases have taken place or the Credits are recovered.

CORRECTIVE ACTION
The IRS agrees with your recommendation to determine the extent to which this abuse occurred on paper filed returns. We will develop a plan to determine and assess the compliance risk associated with these returns. As with all of our compliance programs, the IRS manages risk and develops mitigation strategies whether the return is filed electronically or on paper.

IMPLEMENTATION DATE
The IRS is currently analyzing paper filed returns that claimed the First-Time Homebuyer Credit (FTHBC) for a future home purchase. As noted above, the IRS has

commenced its compliance program which will extend into 2010, and will update its plan, as needed, by June 15, 2010.

RESPONSIBLE OFFICIAL
Director, Compliance, Wage and Investment Division
Director, Campus Compliance Services, Small Business/Self Employed Division

CORRECTIVE ACTION MONITORING PLAN
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 3: The Director, Compliance, Wage and Investment Division, and Director, Examination, Small Business/Self-Employed Division, should initiate actions to recover the First-Time Homebuyer Credit when appropriate from taxpayers who had previously claimed the Residential Energy Credit, the District of Columbia First-time Homebuyer Credit, or the Mortgage Interest Credit on their individual income tax returns, and should develop a plan to review the other questionable claims that were processed prior to the IRS filters being implemented.

CORRECTIVE ACTION
The IRS agrees with your recommendation. Currently all returns are screened for questionable FTHBC indicators and stored in a database that will be used to select cases for examination in accordance with our overall compliance plan described above.

IMPLEMENTATION DATE
As noted above, the IRS has commenced its compliance program which will extend into 2010, and will update its plan, as needed, by June 15, 2010.

RESPONSIBLE OFFICIAL
Director, Compliance, Wage and Investment Division
Director, Campus Compliance Services, Small Business/Self Employed Division

CORRECTIVE ACTION MONITORING PLAN
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 4: The Director, Compliance, Wage and Investment Division, and Director, Examination, Small Business/Self-Employed Division should add an age to the filters for pre-refund examinations of claims for First-Time Homebuyer Credits filed with original returns.

CORRECTIVE ACTION
The IRS agrees with this recommendation. Although the law does not preclude taxpayers under the age of 18 from claiming the credit, this is clearly a risk indicator and the IRS has already implemented filters to catch a vast majority of FTHBC claims filed by individuals under age 18. Additionally, the IRS continuously reviews and revises its filters as necessary to detect ineligible filers.

IMPLEMENTATION DATE
Additional age filters to capture any residual returns not captured by existing filters will be in place by September 30, 2009.

RESPONSIBLE OFFICIAL
Director, Compliance, Wage and Investment Division
Director, Campus Compliance Services, Small Business/Self Employed Division

CORRECTIVE ACTION MONITORING PLAN
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 5: The Director, Accounts Management, Wage and Investment Division, should monitor the accounts of taxpayers known to have purchased homes in Calendar Year 2009 who claimed First-Time Homebuyer Credits of $7,500 to determine if the taxpayers amend their returns. If the taxpayers do not amend their returns, the IRS should contact these taxpayers to inform them they may be entitled to an additional refund if the purchase price of their home was greater than $75,000.

CORRECTIVE ACTION
The IRS agrees with this recommendation. Once the majority of our amended returns are processed, we plan to send a notice informing taxpayers that they may be entitled to an additional refund if their home was purchased in 2009 with instructions on how to file an amended return. We also plan to include information if the home was purchased in 2008 on requirements for repayment.

IMPLEMENTATION DATE
IRS is currently monitoring accounts to determine if these taxpayers have filed amended returns. Notices will be sent to those that have not claimed the additional credit beginning June 15, 2010.

RESPONSIBLE OFFICIAL
Director, Accounts Management, Customer Account Services, Wage and Investment Division

4

CORRECTIVE ACTION MONITORING PLAN
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 6: The Director, Tax Forms and Publications, Wage and Investment Division, should consider providing taxpayers with specific information detailing how to amend their tax returns to claim the full amount of First-Time Homebuyer Credit to which they are entitled.

CORRECTIVE ACTION
The IRS agrees with this recommendation. The Instructions for Form 1040, the Instructions for Form 1040X, and Publication 17, Your Federal Income Tax (For Individuals), will include information to assist taxpayers who claimed $7,500 of the FTHHBC with filing an amended return to claim the additional $500 credit.

IMPLEMENTATION DATE
These forms and publications have been revised and are scheduled for release by January 15, 2010.

RESPONSIBLE OFFICIAL
Director, Media and Publications, Customer Assistance, Relationships and Education, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
IRS will monitor this corrective action as part of our internal management system of controls.