

Highlights of [GAO-11-691T](#), a testimony before the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

In 2010, the Internal Revenue Service (IRS) processed about 137 million individual income tax returns and issued 107 million refunds totaling over \$312 billion. The compliance checks it performs before refunds are issued thus could affect millions of taxpayers and billions of dollars of refunds by identifying taxpayers who overclaim or underclaim tax benefits to which they are entitled. Math error authority (MEA) is just one example of the preresfund compliance checks that IRS uses. During 2010, IRS sent taxpayers 8.4 million notices for almost 10.6 million math errors identified on their 2009 individual tax returns.

GAO's statement today will focus on three key areas: (1) preresfund checks and their benefits, (2) how those checks can be enhanced immediately, and (3) how they may be enhanced in the future. It is mostly based on GAO's previous work issued from 2008 through 2011, including an interim report on IRS's 2011 tax filing season, and our ongoing analysis of the 2011 filing season.

What GAO Recommends

GAO makes no new recommendations in this testimony but describes prior matters for Congress to consider in granting IRS expanded MEA.

View [GAO-11-691T](#) or key components. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

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TAX REFUNDS

Enhanced Preresfund Compliance Checks Could Yield Significant Benefits

What GAO Found

Preresfund compliance checks enable IRS to help confirm taxpayers' identity, quickly and efficiently correct some errors with virtual certainty, and identify and audit some returns before refunds are issued. Math error checks are among the most beneficial of these checks for both IRS and taxpayers. For example, they have the potential to deter billions of dollars in erroneous refunds, especially for refundable tax credits that have increasingly been enacted and that have resulted in significant overclaimed refunds and fraudulent claims. Taxpayers benefit from preresfund checks in several ways, including that IRS identifies those underclaiming benefits. Last year GAO reported that IRS corrected about 7.7 million errors associated with the Making Work Pay credit, including about 60 percent in the taxpayers' favor, meaning that taxpayers received larger refunds (or had lower taxes due) than they had anticipated.

For almost a century, Congress has been expanding IRS's MEA on a case-by-case basis. In 2010, GAO suggested that authorizing the use of MEA on a broader basis with appropriate controls to protect taxpayer rights could help IRS immediately address compliance problems with newly created tax credits. In the absence of broader MEA, from 2008 through 2011, GAO also suggested that Congress expand MEA for more limited purposes as shown below.

GAO Math Error Authority Matters for Congressional Consideration

Matter for consideration	Status (May 2011)
Provide IRS with math error authority (MEA) to use prior years' tax return information to ensure that taxpayers do not improperly claim credits or deductions in excess of applicable lifetime limits.	Not yet enacted
Provide IRS with MEA to use prior years' tax return information to automatically verify taxpayers' compliance with the number of years the Hope credit can be claimed.	Not yet enacted
Provide IRS with MEA to (1) use the prior year's tax return information to automatically verify compliance with the 2008 First-Time Homebuyer Credit payback provision and (2) ensure that homebuyers do not improperly claim the credit in multiple years.	Enacted in Public Law 111-92
Provide IRS with MEA to identify and correct returns with ineligible (1) individual retirement account (IRA) "catch-up" contributions and (2) contributions to traditional IRAs from taxpayers over age 70½.	Not yet enacted

Source: GAO.

Longer term, other IRS initiatives, such as matching information returns to tax returns during the filing season and leveraging new paid preparer requirements, could enhance compliance before refunds are issued. One prerequisite would be a major reworking of some fundamental IRS computer systems.