

July 2018

## TAX FRAUD AND NONCOMPLIANCE

### IRS Could Further Leverage the Return Review Program to Strengthen Tax Enforcement

#### Why GAO Did This Study

Tax noncompliance, including refund fraud, threatens the integrity of the tax system and costs the federal government hundreds of billions of dollars annually. RRP is IRS's primary pre-refund system for detecting and preventing the issuance of invalid refunds. IRS reported that between January 2015 and November 2017 RRP prevented the issuance of more than \$6.51 billion in invalid refunds.

GAO was asked to examine RRP's capabilities. This report (1) describes how RRP detects and selects suspicious returns and prevents invalid refunds; (2) assesses how IRS monitors and adapts RRP; and (3) examines what else, if anything, IRS can do to strengthen RRP and use it to address other enforcement issues.

GAO reviewed IRS plans for RRP and documents on its performance. GAO compared IRS's efforts to federal internal control standards, GAO's Fraud Risk Framework and IRS's strategic plan. GAO interviewed IRS officials who work on and use RRP.

#### What GAO Recommends

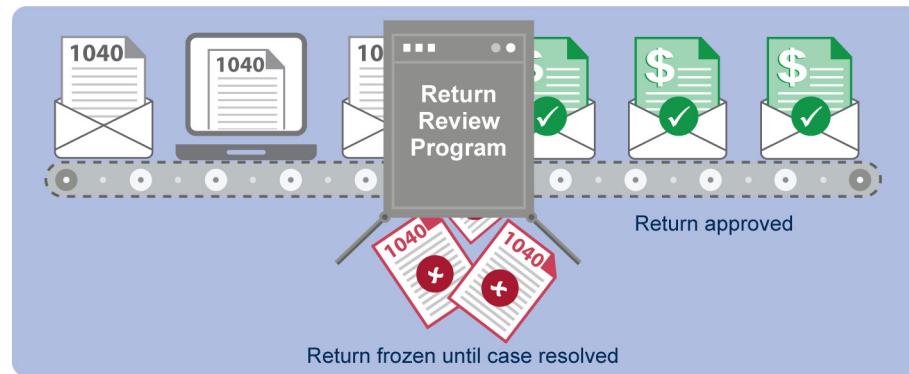
GAO suggests Congress consider legislation to require that returns prepared electronically but filed on paper include a scannable code. GAO is also making five recommendations to IRS, including that IRS take action to make incoming W-2s available to RRP more frequently, update and expand a 2012 analysis of the costs and benefits of digitizing returns filed on paper, evaluate the costs and benefits of expanding RRP to analyze returns not claiming refunds, and take any appropriate action based on those evaluations. IRS agreed with GAO's recommendations.

View [GAO-18-544](#). For more information, contact James R. McTigue, Jr. at (202) 512-9110 or [mctiguej@gao.gov](mailto:mctiguej@gao.gov).

#### What GAO Found

The Internal Revenue Service's (IRS) Return Review Program (RRP) detects and selects potentially fraudulent returns to prevent the issuance of invalid refunds. According to IRS, RRP uses advanced analytic techniques and various data sources, including prior-year tax returns, to assign multiple scores to individual returns based on characteristics of identity theft and other refund fraud.

##### The Return Review Program Screens Returns Before IRS Issues Refunds



Source: GAO analysis of Internal Revenue Service (IRS) information. | GAO-18-544

GAO found that IRS routinely monitors RRP's performance and adapts RRP to improve detection and address evolving fraud threats. Each year IRS updates RRP's detection tools to improve accuracy for the next filing season.

IRS has plans to continue developing RRP to further prevent invalid refunds, including using RRP to analyze and detect fraudulent business returns. However, GAO identified other opportunities for IRS to improve RRP's fraud detection and to use RRP for other enforcement activities:

- RRP's ability to accurately detect and select suspicious returns could benefit from having information on Forms W-2, Wage and Tax Statements (W-2) available for analysis more frequently. As of April 2018, IRS officials said they were drafting but had not yet approved a work request to load W-2s into RRP daily instead of weekly for the 2019 filing season.
- IRS could collect more information electronically from paper filers. One approach IRS evaluated in 2012 is to digitize some paper returns using barcoding technology, but it has not updated that analysis or expanded it to consider other digitizing technologies. IRS requested that Congress require that returns prepared electronically but filed on paper include a scannable code printed on the return, but Congress had not done so as of May 2018.
- IRS could apply RRP's capabilities to improve other tax enforcement activities, such as audit selection or underreporting detection. Individuals' underreporting of tax liabilities accounts for hundreds of billions in lost tax revenue. Until IRS evaluates the costs and benefits of expanding RRP to analyze returns not claiming refunds, IRS will not have the information needed to make decisions that could help streamline processes for detecting and treating additional types of noncompliance and fraud.