

IRS Loses Billions on Amended Returns

Cross References

- Treasury Inspector General for Tax Administration, Report #2014-40-028, April 25, 2014

A recent report from the Treasury Inspector General for Tax Administration (TIGTA) found that the IRS needs to modernize its processing for amended tax returns to reduce erroneous refunds, processing costs, and taxpayer burden.

Taxpayers file Form 1040X, *Amended U.S. Individual Income Tax Return*, to correct previously filed income tax returns. Claims filed on an amended tax return can relate to any item of income, loss, exclusion, deduction, or credit and may result in a tax refund. The IRS only allows amended tax returns to be filed on paper. As a result, there is additional taxpayer burden and increased potential for erroneous tax refund payments.

The IRS received more than 4 million amended tax returns in fiscal year 2012. The TIGTA audit was initiated because previous audits have identified problems with IRS processes for verifying claims on amended tax returns. The objective of this audit was to determine whether the IRS has controls in place to ensure that claims for refunds on amended tax returns are appropriate.

TIGTA found that a statistical sample of 259 amended tax returns claiming tax refunds of \$500 or more in fiscal year 2012 identified 44 (17%) tax returns for which the IRS issued potentially erroneous tax refunds totaling \$103,270.

Based on the sample results, TIGTA estimates the IRS may have issued more than \$439 million in potentially erroneous tax refunds claimed on 187,421 amended returns in fiscal year 2012.

As such, the IRS could issue more than \$2.1 billion in potentially erroneous tax refunds claimed on amended tax returns over the next five years.

To reduce erroneous refunds, processing costs, and taxpayer burden, the IRS could revise Form 1040, *U.S. Individual Income Tax Return*, to allow for corrections to original tax return filings and expand e-filing to include amended tax returns. TIGTA estimates that the IRS could have potentially saved more than \$17 million in processing costs during fiscal year 2012 if it had allowed taxpayers to e-file their amended tax return.

TIGTA recommended that the Commissioner, Wage and Investment Division, revise Form 1040 to enable taxpayers to amend their original tax return using this form, expand e-filing to include amended tax returns, and conduct a review of the 44 amended tax returns TIGTA identified for which potentially erroneous refunds were issued to determine the proper tax liability.

The IRS agreed with two of TIGTA's three recommendations and disagreed with one. Although the IRS disagreed with revising Form 1040, the IRS plans to consider changing the format and appearance of Form 1040X. The IRS also plans to consider e-filing of amended tax returns based on available funding and resources. The IRS reviewed the 44 potentially erroneous refund returns and generally agreed that procedures were not correctly followed for those identified as having processing errors.