TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Implementation of Economic Impact Payments

May 24, 2021

Report Number: 2021-46-034

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Why TIGTA Did This Audit

This audit was initiated to assess the IRS's Economic Impact Payment (EIP) outreach and assistance to individuals, accuracy of the computation, and adequacy of controls to prevent ineligible individuals from receiving a payment.

This is a part of a series of audits to evaluate the IRS's implementation of the EIP and the Recovery Rebate Credit. TIGTA is conducting a separate review of the IRS's processing of Recovery Rebate Credit claims.

Impact on Taxpayers

One of the most significant parts of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, 2020, is a refundable Recovery Rebate Credit for individuals. The Act authorizes the IRS to make an advance payment of the Recovery Rebate Credit to eligible individuals by December 31, 2020. This advance payment is referred to as the EIP. As of December 31, 2020, the IRS has issued 168.2 million EIPs totaling $280 billion.

What TIGTA Found

The IRS, as required by the CARES Act, initiated a multipronged public awareness campaign to inform taxpayers about the availability of the EIP. These efforts included coordinating with local community organizations, food banks, and homeless shelters to reach unsheltered individuals; notifying approximately 9 million individuals who do not have a tax return filing requirement but may qualify for an EIP; and designating a National EIP Registration Day. In addition, the IRS established processes to issue a notice to each EIP recipient as required by the CARES Act. The notice provides the recipient with the amount of their payment and the method used to send their payment, *e.g.*, direct deposit or paper check/prepaid debit card.

As TIGTA reported in June 2020, our review of the more than 157 million EIPs issued as of May 21, 2020, found that the IRS correctly computed the EIP amount for 98 percent (154 million) of these payments. However, as of July 16, 2020, the IRS had issued more than 4.4 million EIPs totaling nearly $5.5 billion to potentially ineligible individuals. These payments include payments made to deceased individuals, potentially nonqualified dependents, nonresidents, individuals in U.S. Territories (who have also received payments from the Territories), and individuals with filing status changes. In response to our alerting management of the issuance of payments to the previously mentioned potentially ineligible individuals, the IRS added instructions to IRS.gov to inform these types of individuals of their ineligibility and the need to return these payments, including the process to be followed. As of October 1, 2020, individuals voluntarily returned 65,447 payments totaling more than $80 million.

Finally, the IRS recognized that the EIP created a new risk for tax-related identity theft. In response, the IRS developed specific filters to identify potentially fraudulent filings. Once a return was identified as potentially fraudulent, it was sent to an IRS team for review. As of November 11, 2020, the IRS has identified 457,325 questionable tax returns associated with the EIP for review and determined that 38,273 returns were a fraudulent EIP claim.

What TIGTA Recommended

TIGTA made two recommendations to the IRS including implementing a multipronged public awareness campaign to inform the public about the availability of the Recovery Rebate Credit related to individuals who died in Calendar Year 2020, and developing processes to identify and prevent the issuance of future EIPs to individuals who are ineligible based on applicable dependency requirements.

IRS management disagreed with both recommendations. Management believes a public awareness campaign is not warranted and its systems do not have the ability to look to outside data sources to identify and prevent the issuance of future EIPs to ineligible individuals based on applicable dependency requirements.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

May 24, 2021

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Implementation of Economic Impact Payments (Audit # 202040632)

This report presents the results of our review to assess the Internal Revenue Service's (IRS) Economic Impact Payment outreach and assistance to individuals, accuracy of the computation of the payment, and adequacy of controls to prevent ineligible individuals from receiving a payment. This review was part of our Fiscal Year 2020 discretionary audit work and addresses the major management and performance challenge of *Implementing Tax Law Changes*.

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. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).

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Background

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, 2020, is the largest economic rescue package in U.S. history, providing financial assistance for individuals, families, and businesses affected by the Coronavirus Disease 2019 (COVID-19) pandemic. One of the most significant parts of the CARES Act for individuals is Section 2201, *2020 Recovery Rebates for Individuals*. Section 2201 created a refundable tax credit of up to $1,200 per eligible individual to be applied toward income earned during Tax Year[1] 2020. In addition, eligible individuals can receive up to $500 for each child in their family who is under 17 years old.

The CARES Act defines eligible individuals as those with adjusted gross income up to $75,000 (up to $150,000 for married couples filing a joint return). Individuals with income above the income thresholds will have their credit reduced by $5 for each $100 above the threshold amount. In addition to the income requirements, individuals:

- Must have a work-eligible Social Security Number (SSN). Married members of the military are eligible as long as one spouse has a work-eligible SSN, *i.e.*, one spouse can have an Individual Taxpayer Identification Number.[2]
- Must be a U.S. citizen or resident alien.
- Cannot be claimed as a dependent on someone else's Federal income tax return.

The CARES Act also required the Department of the Treasury to conduct a public awareness campaign regarding the availability of the credit and required the Internal Revenue Service (IRS) to issue a notice to each recipient within 15 days of their payment being issued. The notice must include the amount of the payment and the method used to issue the payment, *e.g.*, direct deposit, paper check, or prepaid debit card.

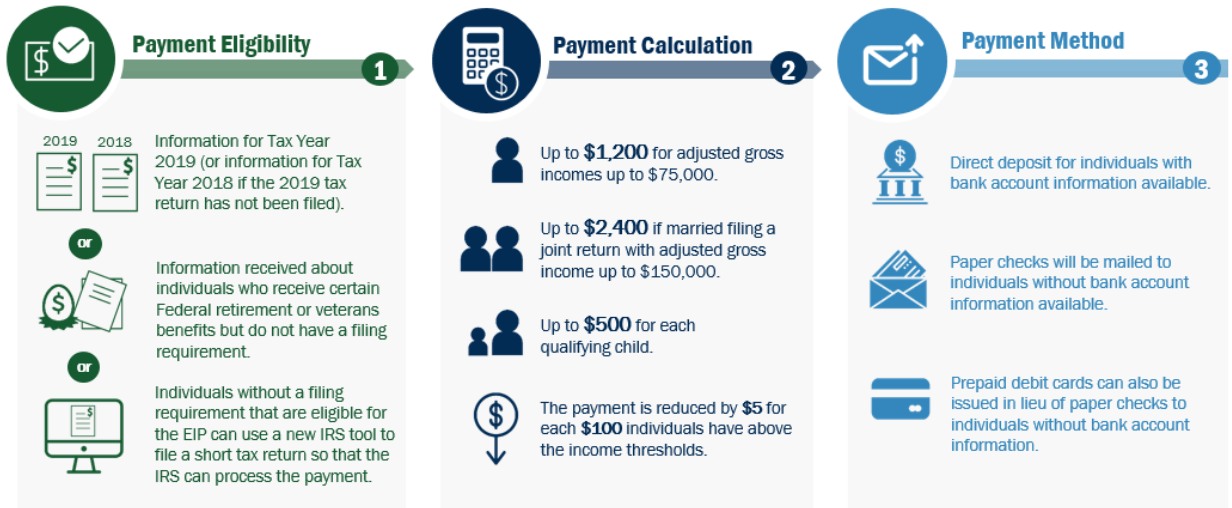
The CARES Act authorizes advance payment of the Recovery Rebate Credit

The CARES Act authorizes the IRS to make an advance payment of the Recovery Rebate Credit to eligible individuals. This advance payment is referred to as the Economic Impact Payment (EIP). Advance payments must be made before December 31, 2020. To determine eligibility and the amount of the advance EIP, the IRS is authorized to use information from an individual's Tax Year 2019 tax return. If the individual has not yet filed a Tax Year 2019 return, the IRS can use the individual's Tax Year 2018 return. In addition, the IRS can use available information such as third-party income reporting documents to automatically issue an EIP to individuals who receive Social Security and Railroad Retirement Board (RRB) retirement benefits and do not have a Federal income tax return filing requirement. Figure 1 shows the process the IRS used to calculate the EIP.

[1] See Appendix V for a glossary of terms.

[2] Individual tax identification number issued by the IRS to individuals who are required to have a Taxpayer Identification Number for Federal tax purposes but do not have and are not eligible to receive an SSN.

Figure 1: Calculation of the EIP



Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of EIP Core Requirement Process Flow.

Individuals who are eligible for the Recovery Rebate Credit must reduce the amount of the credit by the amount of their advance payments. Individuals whose EIP is less than the allowable Recovery Rebate Credit will receive the additional credit when they file their Tax Year 2020 tax return. Individuals whose EIP was more than the allowable credit based on their Tax Year 2020 return do not have to repay the excess.

The *Consolidated Appropriations Act, 2021*, (CAA)[3] enacted on December 27, 2020, authorized the IRS to issue a second EIP (hereafter referred to as EIP2)

The CAA created an additional Recovery Rebate Credit of up to $600 for each eligible individual and $600 for each eligible child. Similar to the CARES Act, the CAA authorized the IRS to make advance payments of the new Recovery Rebate Credit, hereafter referred to as EIP2. These payments were to be issued no later than January 15, 2021.

The CAA also modified the eligibility requirements of the CARES Act Recovery Rebate Credit to match those of the new credit. The Act:

- **Modified the SSN requirement for Married Filing Joint filers.** The CARES Act required both individuals on a married filing joint return to have a valid SSN unless one spouse is a member of the military. The CAA modified this requirement to include all Married Filing Joint filers for which only one spouse has a valid SSN. However, the law clarified that for nonmilitary families, only the spouse and qualifying children that have a valid SSN are to be considered when determining the credit amount to which these filers are entitled.
- **Increased the income phase-out dollar limit for individuals filing as a Qualifying Widow or Widower from $75,000 to $150,000.** Individuals who file as a Qualifying Widow with income above the income threshold will have their credit reduced by $5 for each $100 above the threshold amount.

[3] Pub. L. No 116-260.

The CAA also specified that individuals who were deceased before January 1, 2020, do not qualify for an EIP2 or the new Recovery Rebate Credit.

TIGTA reviews of the IRS's issuance of the EIPs

This is a part of a series of audits to evaluate the IRS's implementation of the EIP and the Recovery Rebate Credit. In June 2020, we issued a report that presented interim results of our review of the IRS's issuance of the EIPs.[4] We reported that significant coordination and efforts were taken by the IRS to expedite its analysis and reprogramming of systems and to educate individuals on the EIP. Remarkably, the IRS began issuing the EIPs on April 10, 2020, just 14 calendar days after the passage of the CARES Act, which was enacted at the same time the IRS was closing its facilities in response to COVID-19. Efforts included:

- Completing extensive computer programming and testing necessary to issue the EIPs despite office closures and employees needing to work remotely. This included developing computer programming requirements to identify eligible individuals and compute the allowable EIP amount, as well as modifying the Master File to capture information related to the issuance of the EIP in each individual's tax account.
- Establishing a dedicated web page on IRS.gov (www.IRS.gov/coronavirus/economic-impact-payments) to provide updated information related to the issuance of the EIP, including a continually evolving list of Frequently Asked Questions (FAQ). As of September 30, 2020, the IRS reported more than 285 million visits to its EIPs web page.
- Developing an online tool, "Get My Payment," that provides taxpayers with the ability to check the status of their EIP payment and submit bank information for taxpayer accounts that are missing that information. As of September 30, 2020, the IRS reported approximately 579 million uses of this tool.
- Coordinating with the Free File Alliance to develop the *NonFilers: Enter Payment Info Here* tool (hereafter referred to as the Nonfiler tool). This tool assists taxpayers who are eligible to receive an EIP but do not have a Federal tax return filing requirement. The tool enables these individuals to quickly file a short tax return that contains the information the IRS needs to issue their EIP for free. As of September 30, 2020, 7,582,400 individuals submitted a short EIP return using the Nonfiler tool. The IRS kept the tool opened until November 21. The IRS reports accepting 8,518,600 returns through the tool as of this date.
- Coordinating with other Federal agencies to obtain program data that could be used to automatically send an EIP to individuals who receive benefits from these agencies and do not regularly interact with the IRS. For example, the IRS worked with the Bureau of the Fiscal Service (BFS),[5] the Social Security Administration (SSA), and the Department of Veterans Affairs (VA) to identify beneficiary recipients along with their direct deposit

[4] TIGTA, Ref. No. 2020-46-041, *Interim Results of the 2020 Filing Season: Effect of COVID-19 Shutdown on Tax Processing and Customer Service Operations and Assessment of Efforts to Implement Legislative Provisions* (June 2020).

[5] Agency of the U.S. Department of the Treasury that issues payments on behalf of the IRS.

account numbers, if available, for use in systemically issuing the EIP without the beneficiary having to file a short-form tax return.

This audit focuses on the accuracy of the IRS's calculation of the first EIP based on the CARES Act (hereafter referred to as EIP1) and efforts to prevent payments to ineligible individuals. We also provide preliminary information on the IRS's efforts to issue EIP2 payments. We are conducting a separate review that will continue to evaluate IRS efforts to identify eligible individuals who did not receive an EIP1 and/or an EIP2 payment as well as the IRS's processing of Recovery Rebate Credit claims. This review will also include an assessment of IRS efforts to assist eligible individuals who do not have a Federal tax return filing requirement and did not receive an EIP. We plan to issue this report later in Calendar Year 2021.

Results of Review

As required by the CARES Act, the IRS initiated a multipronged public awareness campaign to inform taxpayers about the availability of the EIP. This included:

- Coordinating with local community organizations, food banks, and homeless shelters to reach unsheltered individuals. For example, the IRS reached out to 4,598 homeless shelters with information on how to obtain an EIP and asked these organizations to act as "trusted partners" to receive payments on behalf of their clients.
- Coordinating with the Department of the Treasury to notify approximately 9 million individuals who do not have a tax return filing requirement but may qualify for an EIP. The IRS, in a joint effort with the Department of the Treasury, used available tax data to identify individuals who may have income reported to the IRS by a third party but do not have a tax return filing requirement. Once identified, the IRS sent these individuals a letter notifying them that they may be eligible for an EIP and urging them to use the Nonfiler tool on IRS.gov to file a short return before October 15, 2020, to receive an EIP.
- Designating a National EIP Registration Day and extending the deadline to use the Nonfiler tool from October 15, 2020, to November 21, 2020. The IRS worked with partner groups, including those that work with low-income and underserved communities, to spread the word about the deadline and provide support to help individuals register for the payments.

As of December 31, 2020, the IRS issued 168.2 million EIPs totaling $280 billion. In addition, the IRS also established processes to issue a notice to each EIP recipient as required by the CARES Act. The notice provides the recipient with the amount of their payment and the method that their payment was sent, *e.g.*, direct deposit or check/prepaid debit card.[6] For the purpose of this report, EIP figures presented reflect payments issued as of the time frame noted. We will continue to provide updated figures as part of our subsequent reviews.

[6] See Appendix III for an example of the notice sent.

Some Economic Impact Payments Were Sent to Potentially Ineligible Individuals

In June 2020, we reported that our review of the more than 157 million EIPs issued as of May 21, 2020, found that the IRS correctly computed the EIP amount for 98 percent (154 million) of these payments. Subsequent to our June report, we reviewed the payments associated with the other 2 percent (3 million payments) in which our calculated EIP amount did not match the IRS EIP amount. For these payments, the difference between the two amounts resulted from:

- 2.1 million payments in which we used a Tax Year 2019 tax return that was processed subsequent to the IRS's initial determination of the individual's eligibility and EIP amount. The IRS's computation was based on the individual's Tax Year 2018 tax return as the Tax Year 2019 had not yet been processed.
- 896,514 payments in which there was a difference in the number of children that qualified for the $500 payment. For example, we relied on the child's age as of January 1, 2020, to identify the number of children who qualified for the extra $500 in the EIP. The IRS relied on the child's age during the tax year used to determine eligibility, *i.e.*, Tax Year 2018 or 2019.

While the IRS correctly computed the EIP amount for most of the payments, as of July 16, 2020, the IRS had issued more than 4.4 million EIPs totaling nearly $5.5 billion to potentially ineligible individuals. Figure 2 provides more details on these EIPs.

Figure 2: Potentially Erroneous EIPs Issued as of July 16, 2020

	Payments	Dollars
Deceased	2,174,616	$3.5 billion
Dependents	1,844,846	$1.4 billion
Nonresidents	324,864	$444 million
Duplicate U.S. Territory Payments	61,119	$92 million
Duplicate Payments for Filing Status Changes	46,763	$69 million
Total	**4,452,208**	**$5.5 billion**

Source: TIGTA analysis of payments issued as of July 16, 2020.

The EIPs issued to deceased individuals

As of July 16, 2020, the IRS issued nearly 2.2 million payments totaling nearly $3.5 billion to individuals who per IRS records were deceased. This includes 667,574 payments totaling more than $1.6 billion in which one of the individuals on a married filing joint return was deceased and 20,851 payments totaling more than $49 million in which both individuals were deceased. As we previously reported, we notified IRS management on April 15, 2020, that the EIPs were being issued to deceased individuals. IRS management initially noted that payments to these individuals were allowed because the CARES Act does not prohibit the issuance of payments to deceased individuals.

However, the Department of the Treasury subsequently changed its position, noting that individuals who were deceased are not entitled to an EIP, and if a payment was received, it should be returned to the IRS. On May 1, 2020, we raised concerns to IRS management regarding the lack of guidance regarding how an individual can return an EIP that they received in error. In response to our concerns, the IRS updated the EIP FAQs on its website on May 6, 2020, with new guidance regarding payments that were issued to deceased individuals. The IRS informed individuals who received these payments for an individual who died before the receipt of the payment that the payment should be returned to the IRS. The IRS also included steps that should be taken to return these payments as part of its FAQs. In our discussions with IRS management, they stated that they are relying on individuals to voluntarily return these payments. As of October 1, 2020, a total of 59,500 payments totaling more than $72 million have been voluntarily returned.

To prevent additional payments from being issued to deceased individuals, the IRS:

- Provided the BFS with a data file that contained the Taxpayer Identification Number (TIN)[7] of individuals listed in IRS records as being deceased for the past five years and requested that the BFS remove these individuals from payment files. Payments were removed using this process between May 1, 2020, and May 8, 2020. The BFS was able to stop 230,086 payments totaling more than $358 million using the provided information.

  However, in initiating this action, the BFS stopped the entire payment even when the spouse of the deceased individual was alive and entitled to their portion of the EIP. We alerted the IRS to this situation. In response, the IRS worked with the BFS to identify the specific individuals whose portion of their EIP should not have been stopped. IRS management stated that they implemented corrective programming on September 24, 2020, and issued approximately 225,000 recovery payments for the spouse's portion of the EIP.

- Implemented programming on May 13, 2020, to discontinue calculating and sending the EIPs to deceased individuals. Our analysis of payments issued subsequent to May 13, 2020, confirmed that the programming is working as intended.

In addition, at the direction of the Department of the Treasury, the BFS cancelled all outstanding EIP paper checks on July 6, 2020, that were previously issued to deceased individuals. The IRS posted information on its EIP website alerting taxpayers that the BFS has cancelled outstanding EIP checks issued to recipients who may not be eligible, including those who records show are deceased. The IRS also conducted a recovery effort to identify individuals associated with joint payments to ensure that these individuals received the EIP to which they are entitled. On November 19, 2020, the IRS issued recovery payments to these individuals.

As of October 1, 2020, from the nearly 2.2 million payments issued to deceased individuals, a total of 668,277 payments totaling more than $872 million have been rejected by the bank or returned to the IRS as undeliverable.

[7] A nine-digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, the TIN is either an Employer Identification Number, an SSN, or an Individual TIN.

The CAA clarifies Recovery Rebate Credit eligibility of individuals deceased in Calendar Year 2020

Title II of Division N of the CAA, enacted on December 27, 2020, clarifies that individuals who died in Calendar Year 2020 are eligible to receive the Recovery Rebate Credit. On January 5, 2021, the IRS added the following FAQ to its EIP web page:

> *Will a deceased individual receive the payment?*
>
> Payment won't be issued to someone who has died before January 1, 2020. If you filed a joint return in 2019 and your spouse died before January 1, 2020, you won't receive a $600 payment for your deceased spouse, but you'll still be issued up to $600 for you and $600 for any qualifying children, if all other eligibility criteria are met. *With regard to eligible individuals who died in 2020, the Recovery Rebate Credit may be claimed on line 30 of their 2020 tax return. Please refer to the instructions for the 2020 Form 1040 for more information*.

Although clarification was included in this legislation, we remain concerned that considerable confusion may exist on the part of the families and estates of individuals with a Date of Death in Calendar Year 2020. This confusion arises from the fact that prior to the passage of the CAA, the IRS instructed the families of deceased individuals, including those who died in Calendar Year 2020, to return the decedent's EIP, *i.e.*, the advance payment of the Recovery Rebate Credit, because they were not entitled to these advance payments.

Given the IRS's extensive messaging and position prior to the passage of the CAA regarding the EIPs sent to deceased individuals, we are concerned that the families and estates of individuals with a Date of Death in Calendar Year 2020 may not understand that these deceased individuals are in fact eligible for the Recovery Rebate Credit, and as such may not file a decedent's Tax Year 2020 tax return to claim this credit. Of the nearly 2.2 million EIPs the IRS issued to deceased individuals prior to May 2020, 831,958 payments were issued to individuals with a Date of Death in Calendar Year 2020.

Our ongoing coverage will include an assessment of the IRS's processing of final tax returns associated with individuals deceased in Calendar Year 2020 to ensure that their Recovery Rebate Credit is accurately calculated, and they receive the amount to which they are entitled.

Recommendation 1: The Commissioner, Wage and Investment Division, should initiate a multipronged public awareness campaign to inform the public about the availability of the Recovery Rebate Credit related to individuals deceased in Calendar Year 2020. This campaign should clarify information previously provided about the advance payments as well as actions that need to be taken to claim the Recovery Rebate Credit for a Calendar Year 2020 decedent.

> **Management's Response:** The IRS disagreed with this recommendation. IRS management noted that the instructions for Form 1040, *U.S. Individual Income Tax Return*, and Form 1040-SR, *U.S. Tax Return for Seniors*, state that individuals who died in Calendar Year 2020 are eligible for the Recovery Rebate Credit, provided other eligibility requirements are met. IRS management has also taken further actions, such as clarifying information posted previously on its website about the advance payments to reflect the eligibility of decedents in 2020, as well as posting information about claiming the 2020 Recovery Rebate Credit for eligible decedents. IRS management believes these actions are sufficient and a public awareness campaign is not warranted.

Office of Audit Comment: We remain concerned that the families and estates of individuals deceased in Calendar Year 2020 may be unaware of this Recovery Rebate Credit eligibility provision.

The EIPs issued to individuals who were claimed as dependents

Our analysis of EIP payments issued as of July 16, 2020, identified approximately 1.8 million potentially erroneous payments totaling nearly $1.4 billion associated with ineligible dependents. These included:

- Nearly 1.1 million payments totaling more than $553.6 million that were issued for dependents who were older than 16 in Calendar Year 2020. The CARES Act states to be eligible for the $500 qualifying child payment, a child:
    - Must be 16 years old or younger at the end of the tax year.
    - Must be the taxpayer's son, daughter, stepchild, foster or adopted child, brother, sister, stepbrother, stepsister, half-brother or half-sister, grandchildren, niece or nephew.
    - Must have not provided more than one-half of their own support for the year, and other criteria.

  Our review of an IRS draft EIP Programming Requirements document identified that the IRS initially planned to evaluate the age of dependents as of January 1, 2020. IRS management indicated that they did not consider the age of the dependents in Calendar Year 2020 because the CARES Act authorizes them to rely on the information on taxpayers' Tax Year 2018 or 2019 return when determining eligibility for the EIP. IRS management also stated that the computer processes used to calculate and issue the EIP cannot coordinate with the IRS database where Date of Birth information resides. While the IRS uses SSA data to verify that applicable age requirements related to credits and deductions are met when processing a tax return, it would need to complete extensive reprogramming to access this information during EIP processing.

- 388,023 payments totaling $465.6 million issued to SSA/RRB/VA/Supplemental Security Income (SSI) beneficiaries who were claimed as a dependent on a Tax Year 2019 tax return filed before the EIP was issued. The CARES Act states that to be eligible for the EIP, an individual cannot be claimed as a dependent on someone else's Federal income tax return. IRS management stated that these individuals were not identified as a dependent because the Tax Year 2019 tax return on which they were claimed had not been processed at the time the IRS verified the individual's dependent status.

- 269,384 payments totaling $341.9 million issued to individuals who filed their own return and were also claimed as a dependent on someone else's tax return. As previously noted, the CARES Act states that an individual who can be claimed as a dependent is not eligible for the EIP. Individuals are instructed to check a box on their tax return to notify the IRS that they can be claimed as someone else's dependent. The IRS relied on this checkbox to identify individuals who were not eligible for an EIP. These 269,384 individuals did not check the dependent box on their tax return as instructed.

EIP dependent payments were made for the same qualifying child used on more than one tax return

In addition to the previously mentioned payments, we also identified 175,724 payments totaling an estimated $44 million for qualifying children claimed on more than one tax return. These 175,724 payments involved 87,745 unique dependent TINs. The number of times a particular child's TIN was used on a tax return ranged from two tax returns to 21 tax returns. We alerted the IRS of our identification of payments issued for multiple individuals and recommended that the IRS:

- Update IRS.gov with information to encourage individuals who received an erroneous qualifying child EIP for a multiple use dependent to return the payment. The IRS disagreed. IRS management stated that these payments would be the result of either a taxpayer intentionally claiming a dependent to whom they knew they were not entitled, or an error caused by the taxpayer or an IRS employee during transcription of the return. IRS management stated that they doubt a FAQ would persuade someone who intentionally claimed a child in error to return the payment. In addition, taxpayers would be unaware of a transposition or transcription error and would not recognized that the FAQ applied to them.
- Contact these individuals to alert them that their TIN or their child's TIN has been used as a dependent on someone else's tax return and instruct them to notify the IRS if they believe their TIN or their child's TIN may have been stolen. IRS management responded that they are evaluating the resources needed to accomplish our recommendation and will consider the messaging through direct mailings.
- Establish processes to recover payments that are determined to be the result of the identity theft of the dependent's TIN. The IRS disagreed due to the amount of resources needed in comparison to the potential amount to be recovered. IRS management stated that deficiency procedures would be required to examine the facts and circumstances of each duplication to determine who is entitled to claim the dependent.

As of October 1, 2020, only 872 of the approximately 1.8 million individuals we identified have voluntarily returned their payments totaling more than $1.1 million. In our subsequent conversation with the IRS, IRS management explained that to identify dependents who did not check the dependent box on their return or those dependents used on multiple returns during EIP calculation and issuance would require extensive reprogramming of the involved systems. While TIGTA recognizes the challenge involved to improve the current process, the IRS should still consider program changes that would help it prevent future erroneous payments related to dependents.

Recommendation 2: The Commissioner, Wage and Investment Division, should ensure that prior to issuing future EIPs, processes are developed to cross-check return filings to identify and prevent payments to individuals who are not eligible based on applicable dependency requirements.

> **Management's Response:** The IRS disagreed with this recommendation and the related outcome measure (see Appendix II for more information on the reported outcome measure). [redacted] In addition, IRS

management believes implementing a process to do so would not guarantee a payment to an unentitled individual would be stopped, as the subsequent use of the dependent by the entitled person may not occur until after the first person's return has been processed and the EIP issued. In effect, this would harm the rightful individuals by denying the payment to them. [redacted]

Office of Audit Comment: [redacted] The IRS captures each use of a TIN for an applicable tax year in the Duplicate TIN database. The TINs that are used more than once are identified with a priority code. At a minimum, we believe the IRS can use the Duplicate TIN database to determine whether a TIN has already been used as a dependent on a tax return before issuing an EIP.

EIP payments issued to nonresidents

In June 2020, we reported that our analysis of payments issued as of May 21, 2020, identified 309,601 payments totaling more than $423 million that were issued to individuals whose SSN indicates they are a legal alien authorized to work in the United States. However, these individuals had no Federal Insurance Contributions Act (FICA) tax withheld from their wages in Calendar Years 2018 or 2019, which indicates they are likely not considered a U.S. resident. Certain nonresident aliens are exempt from FICA taxes based on their VISA type, such as nonresident alien students and professors temporarily present in the United States. We conducted this analysis based on reports by news media that individuals who were not U.S. residents were receiving the EIPs. These individuals include foreign college students who stayed temporarily in the United States and filed the incorrect tax returns that make them appear to be U.S. residents.

Our updated analysis of payments issued as of July 16, 2020, found the number of these potentially erroneous payments increased to 324,864 payments totaling nearly $444 million. Of the 324,864 payments, 30,175 of these payments totaling more than $37 million were calculated by the IRS using a Form 1040, which listed a foreign address.

The CARES Act states that to be eligible for an EIP, an individual must be a U.S. citizen or resident alien. On May 1, 2020, we sent an alert to the IRS detailing our identification of the previously mentioned EIPs issued to individuals who are likely not U.S. residents and asked for clarification on the steps the IRS used to ensure that individuals for whom an EIP is being issued are in fact U.S. residents. In response to our alert, the IRS added the following FAQ to its website:

> *Does someone who is a resident alien qualify for the Payment?*
>
> A person who is a nonresident alien in 2020 is not eligible for the Payment. A person who is a qualifying resident alien with a valid SSN is eligible for the Payment only if he or she is a qualifying resident alien in 2020 and could not be claimed as a dependent of another taxpayer for 2020. Aliens who received a payment but are not qualifying resident aliens for 2020 should return the payment to the IRS.

As of October 1, 2020, 2,361 payments totaling more than $2.8 million have been voluntarily returned to the IRS. Management also indicated to ensure that only U.S. residents are sent an EIP, payments were issued to only taxpayers who file a Form 1040. Taxpayers filing the Form 1040 NR, *U.S. Nonresident Alien Income Tax Return*, are not eligible for the EIP. However, the IRS has no process to identify nonresidents who incorrectly filed a Form 1040 similar to those we identified in our analysis.

Based on our analysis, we have indications that nonresident aliens may be filing incorrect Form 1040 tax returns. We plan to conduct an audit to determine whether IRS processes ensure that aliens working in the United States are accurately determining their residency status and are filing the proper income tax return.[8]

Individuals with addresses in a U.S. Territory erroneously received duplicate EIPs

Our analysis of payments issued as of July 16, 2020, identified 59,946 individuals who incorrectly received two EIPs – one from a U.S. Territory and one from the IRS. These individuals incorrectly received 61,119 payments totaling nearly $92.2 million. Some of these individuals listed a U.S. domestic address on their U.S. tax return used to calculate the EIP while others listed a U.S. Territory address on their U.S. tax return.

In May 2020, we met with IRS management to discuss processes and procedures they developed to ensure that the Territories do not issue duplicate payments to individuals who have already received an EIP from the IRS. IRS management indicated that U.S. Territories are responsible for determining who is eligible to receive an EIP payment and the amount of the payment as well as issuing the payment. IRS management further explained that each U.S. Territory included steps to identify duplicate payments in their respective *EIP Implementation Plans*, which they entered into with the Department of the Treasury.

To assist U.S. Territories in the identification of potential duplicate payments, the IRS identified payments it made to individuals with a U.S. Territory address similar to the analysis we performed. The IRS sent these files to the Territories on a weekly basis. IRS management also noted that each U.S. Territory is required to send data to the IRS on a monthly basis starting on June 30, 2020, which details the specific individuals who were issued an EIP by the U.S. Territory, including individuals the Territory identified as receiving a duplicate payment. In addition, on June 8, 2020, the IRS updated the following information to its FAQs on its website:

> ***What does it mean if I received a Payment from both the IRS and a U.S territory tax agency?***
>
> *In general, eligible individuals should not receive a Payment from both the IRS and a U.S. territory tax agency. If you have received a Payment from more than one jurisdiction and you are a resident of a U.S. territory for the 2020 tax year, please consult your U.S. territory tax agency concerning information about Payments received by U.S. territory residents from the IRS, including incorrect or duplicate Payments. If you have received a Payment from more than one jurisdiction and you are a NOT a resident of a U.S. territory for the 2020 tax year, you should return any incorrect or duplicate Payments received from the U.S. territory tax agency to the IRS pursuant to the instructions about repayments.*

[8] TIGTA Audit 202140004, *Processes to Ensure That Aliens File the Correct Tax Form Based on Their Residency Status.*

As of October 1, 2020, a total of 2,384 of the 59,946 individuals we identified have voluntarily returned payments totaling more than $3.6 million.

Finally, IRS management stated that on October 9, 2020, they established a team to analyze EIP data and support the Territories in identifying potential duplicate payments to reclaim the funds. In response to the CAA, the U.S. Territories were required to establish new EIP Implementation Plans with the Department of the Treasury for the issuance of the second stimulus payment enacted on December 27, 2020.[9] According to the IRS, these plans were signed on January 19, 2021. The IRS stated that it is currently evaluating its authority to continue to assist the Territories' identification and recovery of potential duplicate payments.

Duplicate EIP payments were issued erroneously to some individuals whose filing status changed between Tax Year 2018 and Tax Year 2019

As we reported in June 2020, our analysis of payments issued as of May 21, 2020, identified 46,759 individuals who received two EIP payments. These involved duplicate payments to some individuals whose filing status changed between Tax Year 2018 and Tax Year 2019, *i.e.*, filed as married in Tax Year 2018 and single in Tax Year 2019 or vice versa. The payments issued in error totaled more than $69 million. These include:

- 16,339 individuals who filed as the secondary taxpayer on a Married Filing Jointly return in Tax Year 2018 and subsequently filed as Single, *i.e.*, Single, Head of Household, Qualifying Widow(er), or Married Filing Separately, in Tax Year 2019 as the primary taxpayer on a tax return. One payment was sent to the bank account or address shown on the Tax Year 2018 tax return, and one payment was sent to the bank account or address shown on the Tax Year 2019 tax return.
- 30,420 individuals who filed as Single in Tax Year 2018 as the primary taxpayer on a tax return and subsequently filed as the secondary taxpayer on a Married Filing Jointly return in Tax Year 2019. One payment was sent to the bank account or address shown on the Tax Year 2018 tax return, and one payment was sent to the bank account or address shown on the Tax Year 2019 tax return.

We sent the IRS an alert notifying it of our concerns on May 12, 2020. IRS management noted that programming requirements were put in place to ensure that multiple EIPs were not issued to the same individual. However, because the IRS processed payments based on both Tax Years 2018 and 2019 returns at the same time, the programming was unable to mark the account for the Tax Year 2018 return to show a payment was issued before the Tax Year 2019 payment was issued. The IRS submitted programming changes on May 15, 2020, to correct this issue, and we confirmed that the programming changes are working as intended as we only identified an additional four payments for a total of 46,763 erroneous payments. As with other EIPs issued in error, the IRS is asking these individuals to voluntarily return their duplicate

[9] The CAA, Pub. L. No. 116-260.

payment. As of October 1, 2020, 330 individuals we identified have voluntarily returned payments totaling $429,793.

Economic Impact Payments to Incarcerated Individuals

In April 2020, the IRS stated that it planned to hold EIP payments identified as being associated with incarcerated individuals. However, as we reported in June 2020, we found that the IRS's programming to hold these payments was not working, *i.e.*, payments were being issued to incarcerated individuals. We notified the IRS that these payments were not being held as it intended. The IRS subsequently modified its computer programming to exclude incarcerated individuals from receiving an EIP and worked with the BFS to intercept some of these payments.

On September 24, 2020, the U.S. District Court in the Northern District of California issued a preliminary injunction stopping the IRS from holding EIPs from individuals on the sole basis of their incarceration status. In response, the IRS updated its EIP FAQs on its website citing the court ruling and providing information on how these individuals can claim their EIP. Individuals were instructed to use the IRS Nonfiler tool by November 21, 2020, or mail a simplified Tax Year 2019 paper tax return to the IRS by the court-ordered deadline of November 4, 2020. In addition, the IRS provided information to correctional facilities regarding the court ruling, including information on how to submit the simplified paper tax return, and took steps to ensure that individuals whose payments had been held, intercepted, or returned receive a payment.

Processes Have Been Established to Identify Fraudulent Tax Return Filings to Receive an Economic Impact Payment

The IRS recognized that the issuance of the EIPs created a new risk for tax-related identity theft as these payments would be issued to eligible individuals who do not normally file a tax return. As we noted earlier, the IRS developed a simplified Tax Year 2019 tax return that these individuals could file to receive their EIP. [redacted]

In response, the IRS developed specific filters to identify potentially fraudulent EIP nonfiler return filings. [redacted]

Once questionable returns are identified, an IRS team manually reviews these returns before they are released for regular processing. This verification includes evaluating these returns using existing IRS identity theft processes to authenticate the identity of the tax return filer. As of November 11, 2020, the IRS identified 457,325 questionable tax returns associated with the EIP and determined that 38,273 returns were fraudulent with the EIPs. The IRS does not have an estimate of the fraudulent EIPs protected. However, using the maximum payment of $1,200, we estimate the amount protected is nearly $46 million.

Economic Impact Payment 2

In response to the enactment of the CAA, the IRS issued 147 million EIP2 payments totaling $142 billion on December 29, 2020. IRS management stated that they had only two calendar days after enactment to issue the second stimulus payments before the IRS shut down its processing systems, including those involved in calculating and issuing the EIPs, to make the programming changes needed for the upcoming filing season. The system responsible for calculating and issuing the EIPs was not brought back online until January 25, 2021. As such, the IRS was limited to this bulk payment issuance. Eligible individuals who were not issued an EIP2 on December 29, 2020, will receive the additional payment when they file their Tax Year 2020 tax return and claim the Recovery Rebate Credit.

The IRS also stated that while it was able to issue 147 million EIP2 payments in December 2020, it could take many weeks for payments that must be issued as a paper check or debit card to be distributed to taxpayers. This delay is the result of a limitation on the number of nondirect deposit payments the BFS can process each week.

TIGTA's interim report identified concerns related to the issuance of the EIP1 to temporary bank accounts

In our June 2020 interim report, we identified and brought to IRS management's attention that multiple EIP deposits were being sent to the same bank account. Specifically, our analysis identified 49,141 payments totaling $75 million associated with 8,793 unique bank accounts that received four or more direct deposit EIPs. We first notified the IRS of our concerns on April 15, 2020. According to IRS management, some of these payments occurred because the computer programming intended to prevent multiple direct deposit of payments into the same bank accounts was not used to calculate and issue the EIPs. Furthermore, many taxpayers who used temporary bank accounts, typically associated with refund products,[10] provided the temporary bank account numbers instead of their true bank account numbers. In response, the IRS developed programming that identified payments associated with tax accounts that had a refund product indicator on the tax account and sent a paper check rather than attempting to send a direct deposit.

IRS management noted that in many of these instances, the tax preparation company did not provide the bank account belonging to the taxpayer (referred to as the Ultimate Bank Account (UBA)) on the tax return or erroneously provided the temporary bank account number as the taxpayer's UBA. As such, when the IRS created its payment files using the UBA from these tax returns, the UBA was not the correct bank account for the taxpayers. This resulted in payments being rejected by the banks and led to the IRS reissuing these payments in paper check or debit card format, further delaying taxpayers' access to the payments.

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[10] Banking products typically offered by tax preparers in which the tax preparation fees are automatically deducted from the tax refund.

A data error resulted in some EIP2 payments being incorrectly sent to temporary bank accounts

Shortly after the IRS issued the EIP2 payments, individuals began reporting that the *Get My Payment* tool showed that their EIP2 was deposited in a bank account that they did not recognize. According to the IRS, similar to the first EIP, some EIP2 payments were issued to temporary bank accounts typically associated with various products that are offered by tax return preparation companies. The IRS stated that individuals who use these products have their refund deposited into a temporary bank account where authorized fees, tax preparation fees, *etc.* are removed from the refund before the refund is deposited into the taxpayer's own bank account.

In preparation for additional anticipated stimulus legislation, the IRS initiated an effort in the summer of 2020 to correct UBA information on certain taxpayers' accounts so that future EIPs could be issued as a direct deposit. However, due to an IRS data error, the taxpayers' accounts were incorrectly updated with the temporary bank accounts. In December 2020, the IRS issued nearly 13 million EIP2 payments to these temporary bank accounts rather than to the correct UBA for these taxpayers.

Once the issue was identified, the IRS immediately began working with financial industry partners to resolve the issue, and some industry partners were able to redirect the EIP2 to the true bank accounts belonging to the affected taxpayers. While some of these payments were redirected to the taxpayers' true bank accounts, many payments were rejected by the banks and returned to the IRS. The IRS has taken steps to identify and correct the bank account information associated with 2.88 million individuals whose payments were sent incorrectly to a temporary bank account. IRS management noted that these 2.88 million payments will be reissued as direct deposits no later than February 3, 2021, to these taxpayers. When we questioned how the IRS could reissue these payments past the deadline set in the legislation of January 15, 2021, IRS management explained that IRS Office of Chief Counsel determined that the IRS can continue to reissue payments if the payment was initially sent prior to the cut-off date set by law. However, the IRS cannot initiate any new payments after the cutoff date of January 15, 2021.

As part of its efforts to reissue direct deposit payments to the previously mentioned population of individuals, the IRS also plans to reissue approximately 2 million EIP2 payments as a paper check. These include individuals who received a debit card and could not pass the authentication process to activate the card, as well as individuals who had their direct deposit payment rejected and the IRS does not have updated bank account information for them.

The IRS is making continued efforts to improve UBA information

Recognizing that using an incorrect UBA to send taxpayers their EIPs causes undue burden on taxpayers, the IRS has and continues to undertake initiatives to improve the reporting of the UBA as well as identifying other sources of valid UBAs associated with taxpayers. The IRS continued to work with its Security Summit partners[11] during Calendar Year 2020 to improve the submission of bank account information and expand the number of future payments that can be issued as a direct deposit using taxpayers' UBA. For example, one such effort resulted in the IRS

[11] Collaboration effort between the IRS and industry partners such as H&R Block, Intuit, Thomson Reuters, Drake Software, and Wolters Kluwer Tax & Accounting.

changing the requirement for the UBA field for Tax Year 2020 and future returns to require preparers/software providers to include a "T" in the first digit of the UBA if the account in that field is a temporary bank account (such as for a debit card product). The IRS has also performed mock testing on the use of this information to prevent future EIPs from going to temporary bank accounts should it be required to issue additional payments.

Another initiative involves the IRS working with the BFS to identify approximately 13 million individuals who received a paper EIP check for which the BFS had a direct deposit number. These individuals receive Government benefits via direct deposit from Federal agencies other than the SSA and the VA. However, IRS management noted that they cannot use these bank accounts to issue future EIPs as a direct deposit without specific legislation. Current legislation only authorizes the IRS to obtain direct deposit information from the SSA, the RRB, and the VA for issuing the EIPs. If the IRS can get authority to proactively coordinate with all Federal agencies to identify their beneficiaries, the IRS believes it can significantly expand the number of direct deposit EIPs it can issue for individuals it knows about and possibly identify additional eligible individuals should future payments be required.

We will continue to monitor the IRS's efforts to resolve this issue as part of our ongoing work to assess the IRS's issuance of the EIPs and processing of Recovery Rebate Credit claims on Tax Year 2020 tax returns.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to assess the IRS's EIP outreach and assistance to individuals, accuracy of the computation of the payment, and adequacy of controls to prevent ineligible individuals from receiving a payment. To accomplish our objective, we:

- Assessed the IRS's outreach and assistance to individuals regarding the EIPs.
- Used the payment criteria included in the CARES Act and developed a systemic program to assess whether the IRS calculated the EIP correctly.
- Analyzed EIP payment files and identified any individual directly and/or indirectly receiving more than one EIP.
- Analyzed EIP payment files and identified any individual potentially ineligible for the EIP.
- Determined whether the IRS has controls and processes to detect fraudulent simplified Tax Year 2019 returns.

Performance of This Review

This review was performed with information obtained from the Wage and Investment Division Headquarters; Accounts Management function; Customer Assistance, Relationships, and Education function; and Return Integrity and Compliance Services function in Atlanta, Georgia; the Wage and Investment Division Submission Processing function offices in Cincinnati, Ohio; and the Information Technology organization in Lanham, Maryland, during the period March through December 2020. 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.

Major contributors to the report were Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services); Deann L. Baiza, Director; Ngan B. Tang, Audit Manager; Karen C. Fulte, Senior Auditor; Brieane K. Hamaoka, Senior Auditor; Tracy M. Hernandez, Senior Auditor; Robert J. Howes, Senior Auditor; Jane G. Lee, Senior Auditor; David P. Robben, Senior Auditor; Heidi C. Turbyfill, Senior Auditor; Linda M. Valentine, Senior Auditor; Michael J. Bibler, Auditor; Laura R. Christoffersen, Auditor; James M. Allen, Information Technology Specialist; Karen A. Brown, Information Technology Specialist; Hong Cao, Information Technology Specialist; Shannon D. Cummings, Information Technology Specialist; Meera B. Dave, Information Technology Specialist; Cheryl F. Joneckis, Information Technology Specialist; Donald J. Meyer, Information Technology Specialist; Johnathan D. Elder, Information Technology Specialist, Applied Research and Technology; and Laura P. Haws, Information Technology Specialist, Applied Research and Technology.

Validity and Reliability of Data From Computer-Based Systems

During this review, we obtained extracts from the Individual Master File for Tax Years 2018, 2019, and 2020; the Individual Return Transaction File for Processing Years 2019 and 2020; the Information Returns Master File for Tax Years 2018 and 2019; the Prisoner File for Processing Year 2019; Individual Master File Refund Files; and the National Account Profile for Processing Years 2019 and 2020 that were available on TIGTA's Data Center Warehouse. We obtained the Social Security SSI and VA beneficiary recipient files from the IRS. We also obtained data from the IRS which detailed the specific individuals who were issued an EIP by each U.S. Territory between May and July 2020. Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected judgmental samples of each extract and verified that the data in the extracts were the same as the data captured in the Integrated Data Retrieval System. We also performed analysis to ensure the validity and reasonableness of our data, such as ranges of dollar values and obvious invalid values. Based on the results of our tests, we believe that the data used in our review were reliable.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They also include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the process for planning, organizing, directing, and controlling program operations for the issuance of the EIPs. We evaluated these controls by meeting with IRS management, reviewing IRS procedures, and reviewing IRS reports.

Appendix II

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; 1,437,531 payments totaling more than $2.5 billion that were issued to individuals who were deceased (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

We obtained extracts from the Individual Master File for Tax Years 2018, 2019, and 2020; the Individual Return Transaction File for Processing Years 2019 and 2020; the Information Returns Master File for Tax Years 2018 and 2019; Individual Master File Refund Files; and the National Account Profile for Processing Years 2019 and 2020.

Our computer analyses of payments that were issued as of July 16, 2020, identified 2,174,616 payments totaling $3,473,925,623 that were issued to individuals who were deceased. To be conservative, we removed all payments that were included in more than one type of erroneous payment to arrive at 2,162,253 payments totaling $3,446,380,335. We then analyzed the Individual Master File as of October 1, 2020, and removed 665,286 payments totaling $867,284,737 that have been cancelled by the bank or returned to the IRS as undeliverable. We also removed 59,436 payments totaling $72,101,945 that were voluntarily returned by the individuals. We finally arrived at 1,437,531 payments totaling $2,506,993,653 that were issued to individuals who were deceased.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Potential; 1,809,068 payments totaling more than $1.3 billion that were issued to individuals due to dependent-related issue (see Recommendation 2).

Methodology Used to Measure the Reported Benefit:

We obtained extracts from the Individual Master File for Tax Years 2018, 2019, and 2020; the Individual Return Transaction File for Processing Years 2019 and 2020; the Information Returns Master File for Tax Years 2018 and 2019; Individual Master File Refund Files; and the National Account Profile for Processing Years 2019 and 2020. We obtained the Social Security SSI and VA beneficiary recipient files from the IRS.

Our computer analyses of payments that were issued as of July 16, 2020, identified 1,844,846 potentially erroneous payments totaling $1,405,260,151 due to dependent-related issue. These included:

- 1,099,460 payments in which dependents claimed on the returns who were older than 16 and/or Individual TIN in Calendar Year 2020 and received $553,698,780.
- 388,023 payments in which Social Security Retirement, Social Security SSI, and VA beneficiaries received the EIP based on SSA/RRB/SSI/VA data totaling $465,627,600 and were also claimed as a dependent on a tax return.
- 269,384 payments totaling $341,944,271 in which the individual was a dependent on someone else's return and filed their own tax return. These individuals did not check the box on their tax return indicating they can be claimed as a dependent.
- 87,979 payments due to the dependent being used on multiple returns. We initially identified 87,745 unique dependent TINs that were used as a dependent on more than one tax return, and the IRS issued a qualifying child payment on each of those returns. These TINs were used on 175,724 tax returns resulting in 175,724 payments. Because one of the instances in which the same dependent is used more than once is a legitimate payment for the EIP, the difference between 175,724 less than unique list of dependent SSNs (87,745) equals the 87,979 excess dependent-related payments paid to duplicate primary taxpayers. Because eligible individuals can receive up to $500 for each child in their family who is under 17 years old, we estimated $43,989,500 (87,979 x $500) for qualifying children claimed on more than one tax return.

To be conservative, we removed all payments that were included in more than one type of erroneous payment to arrive at 1,822,276 payments totaling $1,389,755,654. We then analyzed the Individual Master File as of October 1, 2020, and removed 12,394 payments totaling $18,950,728 that have been cancelled by the bank or returned to the IRS as undeliverable. We also removed 814 payments totaling $1,057,457 that were voluntarily returned by the individuals. We finally arrived at 1,809,068 payments totaling $1,369,747,469 that were issued to individuals due to dependent-related issue.

Management's Response: IRS management disagreed with the outcome measure stating that the outcome includes almost 1.1 million payments for $553.6 million for dependents who were older than 16 years of age at the end of 2020 but were not older than 16 years during the respective tax year on which the EIPs were based. Under the CARES Act, the advance payment of the Recovery Rebate Credit, or EIP, is determined as the amount that would have been allowed as a credit for the applicable base tax year had the provision been applicable to such taxable year. Therefore, dependents not above 16 years of age for the year of the tax return used to calculate the EIP, either 2018 or 2019, are qualifying children and were appropriately included in the total EIP amount.

Office of Audit Comment: The CARES Act authorizes the IRS to use a Tax Year 2018 or 2019 tax return to determine eligibility for the EIP. However, we believe the IRS also has a responsibility to use the data it has available to prevent knowingly issuing improper payments to the extent possible.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Actual; 310,496 payments totaling more than $424 million that were issued to potential ineligible nonresidents (see page 5).

Methodology Used to Measure the Reported Benefit:

We obtained extracts from the Individual Master File for Tax Years 2018, 2019, and 2020; the Individual Return Transaction File for Processing Years 2019 and 2020; the Information Returns Master File for Tax Years 2018 and 2019; Individual Master File Refund Files; and the National Account Profile for Processing Years 2019 and 2020.

Our computer analyses of payments that were issued as of July 16, 2020, identified 324,864 payments totaling $443,707,295 issued to potential ineligible nonresidents. These individuals' SSN indicates they are a legal alien authorized to work in the United States. However, these individuals had no FICA tax withheld from their wages in Calendar Year 2018 or 2019.

To be conservative, we removed all payments that were included in more than one type of erroneous payment to arrive at 323,248 payments totaling $440,203,814. We then analyzed the Individual Master File as of October 1, 2020, and removed 10,399 payments totaling $12,925,592 that have been cancelled by the bank or returned to the IRS as undeliverable. We also removed 2,353 payments totaling $2,872,237 that were voluntarily returned by the individuals. We finally arrived at 310,496 payments totaling $424,405,985 that were issued to potential ineligible nonresidents.

Management's Response: IRS management disagreed with the outcome measure stating that the methodology used to make the determination relies on the absence of FICA tax payments withheld from wages earned by authorized legal aliens during Tax Year 2018 or 2019. The exemption from employer withholding of FICA taxes is not a proxy for an individual's status as a resident alien or a nonresident alien. In fact, both nonresident and resident aliens performing services in the United States are generally subject to FICA tax unless a specific exclusion applies. While the potentially improper EIPs identified may include many nonresident aliens, the measure also likely includes many resident aliens who legitimately had no FICA tax withholding. Had the IRS denied the EIP to all aliens who were either exempt from FICA tax withholding or who performed work exempt from FICA tax withholding, many eligible resident aliens would not have received the credit. That would not be legally correct. Nor is it correct to count as improper every EIP issued to an alien who was either exempt from FICA tax withholding or who performed work exempt from FICA tax withholding.

Office of Audit Comment: We agree there are exceptions in which a valid foreign person could be considered a resident alien and not subject to FICA tax. However, we are unable to identify individuals with these exceptions with the available tax return data.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Actual; 53,012 payments totaling $82,485,047 that were issued to individuals in the five U.S. Territories who have already received a stimulus payment from the IRS (see page 5).

Methodology Used to Measure the Reported Benefit:

We obtained extracts from the Individual Master File for Tax Years 2018, 2019, and 2020; the Individual Return Transaction File for Processing Years 2019 and 2020; the Information Returns Master File for Tax Years 2018 and 2019; Individual Master File Refund Files; and the National Account Profile for Processing Years 2019 and 2020. We obtained the Social Security SSI and VA beneficiary recipient files from the IRS. We also obtained data from the IRS that detail the specific individuals who were issued an EIP by each U.S. Territory between May 2020 and July 2020.

Our computer analyses of payments that were issued as of July 16, 2020, identified 61,119 payments totaling $92,198,662 that were issued to 59,946 individuals in the five U.S. Territories who have already received a stimulus payment from the IRS.

To be conservative, we removed all payments that were included in more than one type of erroneous payment to arrive at 59,056 payments totaling $91,895,089. We then analyzed the Individual Master File as of October 1, 2020, and removed 3,672 payments totaling $5,799,210 that have been cancelled by the bank or returned to the IRS as undeliverable. We also removed 2,372 payments totaling $3,610,832 that were voluntarily returned by the individuals. We finally arrived at 53,012 payments totaling $82,485,047 that were issued to individuals in the five U.S. Territories who have already received a stimulus payment from the IRS.

Type and Value of Outcome Measure:

- Cost Savings (Funds Put to Better Use) – Actual; 46,165 payments totaling $68,608,265 that were issued to individuals who had changes in their filing statuses (see page 5).

Methodology Used to Measure the Reported Benefit:

We obtained extracts from the Individual Master File for Tax Years 2018, 2019, and 2020; the Individual Return Transaction File for Processing Years 2019 and 2020; the Information Returns Master File for Tax Years 2018 and 2019; Individual Master File Refund Files; and the National Account Profile for Processing Years 2019 and 2020.

Our analysis of payments issued as May 21, 2020, identified 46,759 payments totaling $69,434,647 that were issued to individuals who filed as Married Filing Jointly in Tax Year 2018 as the secondary taxpayer on a tax return and filed as Single, *i.e.,* Single, Head of Household, Qualifying Widow(er), or Married Filing Separately, in Tax Year 2019 as the primary taxpayer on a tax return, or filed as Single in Tax Year 2018 as the primary taxpayer on a tax return and filed as Married Filing Jointly in Tax Year 2019 as the secondary on a tax return. We subsequently updated our analysis of payments issued as of July 16, 2020, and identified four additional payments for a total of 46,763 payments totaling $69,440,447 that were issued to individuals whose filing status changed between Tax Year 2018 and Tax Year 2019.

To be conservative, we removed all payments that were included in more than one type of erroneous payment to arrive at 46,671 payments totaling $69,270,875. We then analyzed the Individual Master File as of October 1, 2020, and removed 176 payments totaling $232,817 that have been cancelled by the bank or returned to the IRS as undeliverable. We also removed 330 payments totaling $429,793 that were voluntarily returned by the individuals. We finally arrived at 46,165 payments totaling $68,608,265 that were issued to individuals who filed as Married Filing Jointly in Tax Year 2018 as the secondary taxpayer on a tax return and filed as Single, *i.e.,* Single, Head of Household, Qualifying Widow(er), or Married Filing Separately, in Tax Year 2019 as the primary taxpayer on a tax return, or filed as Single in Tax Year 2018 as the primary taxpayer on a tax return and filed as Married Filing Jointly in Tax Year 2019 as the secondary on a tax return.

Appendix III

Notice 1444, *Your Economic Impact Payment*

THE WHITE HOUSE

WASHINGTON

NOTICE DATE: April 15, 2020
NOTICE NUMBER: 1444 (EN-SP)

Your Economic Impact Payment Has Arrived

My Fellow American:

Our great country is experiencing an unprecedented public health and economic challenge as a result of the global coronavirus pandemic. Our top priority is your health and safety. As we wage total war on this invisible enemy, we are also working around the clock to protect hardworking Americans like you from the consequences of the economic shutdown. We are fully committed to ensuring that you and your family have the support you need to get through this time.

On March 27, 2020, Congress passed with overwhelming bipartisan support the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which I proudly signed into law. I want to thank the United States House of Representatives and the United States Senate for working so quickly with my Administration to fast-track this $2.2 trillion in much-needed economic relief to the American people.

This includes fast and direct economic assistance to you.

I am pleased to notify you that as provided by the CARES Act, you are receiving an Economic Impact Payment of $ ____________ by ______________. We hope this payment provides meaningful support to you during this period.

Every citizen should take tremendous pride in the selflessness, courage and compassion of our people. America's drive, determination, innovation and sheer willpower have conquered every previous challenge---and they will conquer this one too. Just as we have before, America will triumph yet again---and rise to new heights of greatness.

We will do it together, as one nation, stronger than ever before.

President Donald J. Trump

For more information on your Economic Impact Payment, please visit IRS.gov/coronavirus or call 800-919-9835.

Appendix IV

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

April 20, 2021

MEMORANDUM FOR MICHAEL E MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin David P. Alito Digitally signed by David P. Alito Date: 2021.04.20 14:22:43 -04'00'
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Implementation of Economic Impact Payments (Audit # 202040632)

Thank you for the opportunity to review the subject draft report and provide comments. We appreciate the recognition within the report of the substantial effort accomplished by the IRS to implement a major piece of legislation within two weeks of enactment, and both acknowledge and appreciate the invaluable assistance provided by the audit team as implementation occurred throughout the year.

In 2020 the IRS found itself in uncharted waters, as did the entire nation. The coronavirus disease 2019 (COVID-19) pandemic presented some of the greatest challenges to the IRS in its history, both in terms of being able to carry out our mission and in protecting the health and safety of taxpayers and our own workforce. On March 13, 2020, the United States declared the COVID-19 pandemic a national emergency. The pandemic presented our nation with unprecedented challenges, and the IRS responded by quickly facilitating financial assistance to millions of deserving and needy Americans. Our efforts to help the nation weather the financial effects of COVID-19 began in March when Congress approved the Coronavirus Aid, Relief and Economic Security (CARES) Act[1] and other important tax-relief legislation. This included delivery of Economic Impact Payments (EIPs) to help millions of Americans facing financial hardship.

Beginning in mid-March, IRS employees worked around the clock to develop and deploy new programming requirements based on draft versions of the legislation that would become the CARES Act. Within 10 days of enactment, the IRS, in coordination with the Bureau of the Fiscal Service (BFS) issued about 81 million EIPs totaling almost $147 billion. This response was unprecedented compared to the almost two months needed to issue stimulus payments in 2008. By the end of December, more than 160

[1] Pub. L. No. 116-136.

million Americans received EIPs totaling more than $270 billion, net of returned payments. The IRS calculated EIPs and coordinated with the BFS to swiftly send them to those eligible. This included many people who might not normally file a tax return, such as senior citizens and others receiving Social Security retirement, survivor or disability benefits, and railroad retirees. It also included those whose only income is from Supplemental Security Income payments and people receiving certain Department of Veterans Affairs (VA) benefits. The IRS worked cooperatively with the Social Security Administration, VA, and other government agencies to retrieve information needed to send EIPs to these groups of people without requiring them to file a return or take any other action. That was a step beyond anything the IRS was able to do during previous stimulus efforts. The IRS also designed, created, and built two online tools on IRS.gov to help quickly deliver EIPs:

- Non-Filer Tool - Available in both English and Spanish, this tool launched on April 10, 2020, and allowed people who normally do not have a filing obligation to enter basic information so that they could receive their payment.

- Get My Payment - Available in English and Spanish, this tool launched on April 15, 2020, and enabled many taxpayers to check the status of their payment or enter their bank account information to receive their payment electronically.

After completing the principal delivery of EIPs, we continued our efforts to ensure every eligible American received their payment, including those who do not normally file a tax return. This included extensive outreach efforts into underserved communities. We especially focused on getting payments to people who do not normally communicate with the IRS. This included reaching out beyond normal contacts to many low-income, military, veterans, retired, seniors, limited English proficient, and homeless communities in the country. In fact, the IRS distributed EIP outreach materials in more than two dozen languages within each of these communities. We also asked local community groups and religious organizations, as well as the national associations to which they belong and numerous others, for help reaching into their respective communities. The IRS balanced the statutory requirement to provide the payments as “rapidly as possible” with the need for accuracy and concern about potential fraud. As noted in the report, the Treasury Inspector General for Tax Administration (TIGTA) determined that the IRS correctly computed the payment amount for 98 percent of the EIPs issued.

The IRS responded to the CARES Act with unprecedented outreach and education efforts starting in March and continuing through the fall. This work led to sharing information in new and different ways not achieved during previous stimulus efforts. We worked extensively with external stakeholders to communicate about COVID-19 pandemic issues, EIPs, and CARES Act information. We coordinated with dozens of federal agencies, state and local governments, and more than 2,000 partners across the nation to share EIP messaging with their constituents and customers. We also delivered hundreds of printed products on the COVID-19 pandemic, more than 1,300

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social media postings, and more than 500 informational postings on IRS.gov. With assistance from partners in the tax professional community, the IRS provided key EIP information translated into 35 different languages. Our social media channels saw an increase of nearly a half-million new followers during the height of the pandemic. Social media quickly became a major source for delivering messages, with innovative graphics and materials shared and used by groups across the nation. We also worked to share information with Facebook on its COVID-19 Information Center and with Google to prioritize top searches to direct users to IRS.gov.

We disagree with the finding and related outcome measure that that nearly 1.8 million payments attributable to dependents, totaling nearly $1.4 billion, were potentially erroneous. The outcome measure includes almost 1.1 million payments for $553.6 million for dependents who were older than 16 years of age at the end of 2020 but were not older than 16 years during the respective tax year on which the EIPs were based. Under the CARES Act, the advance payment of the Recovery Rebate Credit, or EIP, is determined as the amount that would have been allowed as a credit for the applicable base tax year had the provision been applicable to such taxable year.[2] Therefore, dependents not above 16 years of age for the year of the tax return used to calculate the EIP, either 2018 or 2019, are qualifying children and were appropriately included in the total EIP amount.

The remainder of the outcome measure includes individuals who received an EIP but were claimed as a dependent on another return or who did not receive EIPs but were claimed as dependents on more than one return by other individuals. As mandated by the CARES Act, the EIPs were to be issued “as rapidly as possible”[3]. To accomplish this objective, information readily available from previously processed 2018 and 2019 tax returns was used, on an individual basis, to determine eligibility and calculate payment amounts. In all cases where tax return information was used, the taxpayers declared under penalties of perjury that they had examined their returns, accompanying schedules and statements and, to the best of their knowledge and belief, they were true, correct, and complete. The IRS has compliance processes that identify multiple uses of the same Taxpayer Identification Number across multiple returns; [redacted]

We also disagree with the finding and associated outcome measure that 310,496 payments totaling $424 million were sent to ineligible individuals. The methodology used to make that determination relies on the absence of Federal Insurance Contributions Act (FICA) payments withheld from wages earned by authorized legal

[2] Internal Revenue Code (IRC) § 6428(f)(2).
[3] IRC § 6428(f)(3)(A).

aliens during tax years 2018 or 2019. The exemption from employer withholding of FICA taxes is not a proxy for an individual's status as a resident alien or a nonresident alien; in fact, both nonresident aliens and resident aliens performing services in the United States are generally subject to FICA unless a specific exclusion applies. Resident aliens may be exempt from FICA withholding for several reasons.

- Resident aliens may be exempt based on totalization agreements between the United States and aliens' home countries of residence: under certain conditions, aliens are permitted to present a certificate of coverage from a home country to an employer in order to avoid double taxation for social security type benefits; some totalization agreements permit coverage only by the home country for up to five years.

- Exempt resident aliens also include (1) certain state and local government employees that are covered by the state retirement system; (2) students and trainees under a F-1/M-1 visa when performing services for one's school who continue to be exempt from FICA withholding even after becoming a resident alien after residing in the United States for a certain number of years; (3) students who qualify for the general student employment exception; and (4) foreign temporary agricultural workers from certain countries.

- Even visa status is an imperfect proxy for an individual's status as a nonresident alien. While certain aliens present in the United States for limited periods of time are exempt from FICA taxes based on their visa type, such as nonresident alien students and professors temporarily present in the United States, those individuals may retain those visas but become resident aliens after varying periods of presence within the United States.

While the potentially improper EIPs identified may include many nonresident aliens, the measure also likely includes many resident aliens who legitimately had no FICA withholding. Had the IRS denied the EIP to all aliens who were either exempt from FICA withholding or who performed work exempt from FICA withholding, many eligible resident aliens would not have received the credit. That would not be legally correct. Nor is it correct to count as improper every EIP issued to an alien who was either exempt from FICA withholding or who performed work exempt from FICA withholding.

Attached is a detailed response with our planned corrective actions to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Kevin Morehead, Director, Operations Support, Wage and Investment Division, at 470-639-2701.

Attachment

Attachment

Recommendation

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should initiate a multipronged public awareness campaign to inform the public about the availability of the Recovery Rebate Credit related to individuals deceased in Calendar Year 2020. This campaign should clarify information previously provided about the advance payments as well as actions that need to be taken to claim the Recovery Rebate Credit for a Calendar Year 2020 decedent.

CORRECTIVE ACTION

The instructions for Form 1040, *U.S. Individual Income Tax Return,* and Form 1040-SR, *U.S. Income Tax Return for Seniors*, state that individuals who died in 2020 are eligible for the Recovery Rebate Credit, provided other eligibility requirements are met. Further, we have clarified information previously posted on IRS.gov about the advance payments to reflect the eligibility of decedents in 2020, "*Will a deceased individual receive the payment?"* (Questions and Answers about the Second Economic Impact Payment, updated March 25, 2021) and "*Q A5. Did the IRS send payments to deceased individuals?"* (Questions and Answers about the First Economic Impact Payment – Topic A: Eligibility, updated March 9, 2021). We have also posted on IRS.gov information on claiming the 2020 Recovery Rebate Credit for eligible decedents, "*Q B12. Deceased Individuals: Are individuals who died during 2020 eligible for the credit on their Tax Year 2020 return?"* (added February 5, 2021) and "*Q D6. Deceased Spouse, 2019: How do I complete the Recovery Rebate Credit Worksheet if I received joint Economic Impact Payments with my spouse who died before January 1, 2020?"* (added February 5, 2021). We believe these actions are sufficient and that a public awareness campaign is not warranted.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

The Commissioner, Wage and Investment Division, should ensure that prior to issuing future EIPs, processes are developed to cross-check return filings to identify and prevent payments to individuals who are not eligible based on applicable dependency requirements.

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CORRECTIVE ACTION

The Economic Impact Payments (EIPs) are calculated and disbursed based on select tax return information stored within the Master File, the official system of record for tax assessments and payments. [redacted]

Implementing a process to do so would not guarantee a payment to an unentitled individual would be stopped as the subsequent use of the dependent by the entitled person may not occur until after the first person's return has been processed and the EIP issued. In effect, this would harm the rightful individuals by denying payment to them. [redacted]

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

Appendix V

Glossary of Terms

Term	Definition
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Individual Return Transaction File	A database the IRS maintains that contains information on the individual tax returns it receives.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
National Account Profile	A compilation of selected entity data from various IRS Master Files and the SSA.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

Appendix VI

Abbreviations

BFS	Bureau of the Fiscal Service
CAA	Consolidated Appropriations Act, 2021
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
COVID-19	Coronavirus Disease 2019
EIP	Economic Impact Payment
FAQ	Frequently Asked Question
FICA	Federal Insurance Contributions Act
IRS	Internal Revenue Service
RRB	Railroad Retirement Board
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number
UBA	Ultimate Bank Account
VA	Department of Veteran Affairs

To report fraud, waste, or abuse,
call our toll-free hotline at:

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Or Write:

Treasury Inspector General for Tax Administration

P.O. Box 589

Ben Franklin Station

Washington, D.C. 20044-0589

Information you provide is confidential, and you may remain anonymous.