



Interim Results of the 2014 Filing Season

March 28, 2014

Reference Number: 2014-40-029

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

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HIGHLIGHTS

INTERIM RESULTS OF THE 2014 FILING SEASON

Highlights

Final Report issued on March 28, 2014

Highlights of Reference Number: 2014-40-029 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The filing season, defined as the period from January 1 through mid-April, is critical for the IRS because it is during this time that most individuals file their income tax returns and contact the IRS if they have questions about specific laws or filing procedures.

WHY TIGTA DID THE AUDIT

The closure of Government operations between October 1 and October 16, 2013, reduced the time the IRS had to implement tax law changes and bring tax return processing systems online. The objective of this review was to provide selected information related to the IRS's 2014 Filing Season. TIGTA plans to issue the final results of our analysis of the 2014 Filing Season in September 2014.

WHAT TIGTA FOUND

As a result of the Government closure, the IRS delayed the start of the filing season from January 21, 2014, to January 31, 2014. As of March 7, 2014, the IRS had received more than 67.1 million tax returns—more than 62.2 million (92.6 percent) were filed electronically and nearly five million (7.4 percent) were filed on paper. The IRS has issued more than 55.4 million refunds totaling more than \$164 billion.

The IRS continues to expand identity theft filters to identify fraudulent tax returns. As of February 28, 2014, the IRS reports that it identified and confirmed 28,076 fraudulent tax returns involving identity theft. In addition, the IRS identified 57,316 tax returns with \$385 million claimed in fraudulent refunds and prevented the issuance of \$336 million

(87.3 percent) of the fraudulent refunds it identified. The IRS also identified 36,801 prisoner tax returns for screening.

The use of the split refund option to direct deposit a refund into multiple bank accounts continues to grow. Through March 6, 2014, a total of 585,331 individuals chose to split refunds totaling more than \$2.6 billion into multiple accounts. However, TIGTA continues to identify that some taxpayers and return preparers misuse this option to direct a portion of a tax refund to a preparer for payment of services.

TIGTA also found that some paid tax return preparers continue to be noncompliant with Earned Income Tax Credit due diligence requirements, but the number has decreased substantially when compared to the same period last filing season.

Finally, the IRS plans to assist 5.6 million taxpayers through face-to-face contact at the Taxpayer Assistance Centers during Fiscal Year 2014, which is one million fewer taxpayers than were assisted during Fiscal Year 2013. As of March 8, 2014, approximately 46.3 million taxpayers had contacted the IRS by calling one of the various toll-free Customer Account Services lines. The IRS continues to offer more self-assistance options that taxpayers can access 24 hours a day, seven days a week, including its IRS2Go app; YouTube channels; interactive self-help tools on IRS.gov; and Twitter, Tumblr, and Facebook accounts. However, the IRS did not always ensure that the self-help tools were updated with the most current tax information before the start of the filing season.

WHAT TIGTA RECOMMENDED

This report was prepared to provide interim information only. Therefore, no recommendations were made in the report.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 28, 2014

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

A handwritten signature in black ink, appearing to read "Michael E. McKenney".

FROM: Michael E. McKenney
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Interim Results of the 2014 Filing Season
(Audit # 201440013)

This report presents selected information related to the Internal Revenue Service's (IRS) 2014 Filing Season results.¹ As part of our Fiscal Year 2014 Annual Audit Plan, we are conducting several ongoing audits that are related to specific issues in this report. Our overall objective was to provide selected information related to the IRS's 2014 Filing Season. This review addresses the major management challenge of Implementing the Affordable Care Act and Other Tax Law Changes. We will continue to provide IRS management with information on any areas of immediate concern throughout our audit process.

This report was prepared to provide information only. Therefore, we made no recommendations in the report. However, we provided IRS management officials with an advance copy of this report for review and comment prior to issuance.

Copies of this report are also being sent to the IRS managers affected by the report information. If you have any questions, please contact me or Russell P. Martin, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

¹ See Appendix V for a glossary of terms.



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Abbreviations

e-file(d), e-filing	Electronically file(d); electronic filing
EITC	Earned Income Tax Credit
IRS	Internal Revenue Service
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration



Interim Results of the 2014 Filing Season

Background

The annual tax return filing season¹ is a critical period for the Internal Revenue Service (IRS) because it is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures.

During Calendar Year 2014, the IRS expects to receive 149.8 million individual income tax returns. The IRS estimates that it will process approximately 22.9 million paper-filed and 126.9 million electronically filed (e-filed) tax returns. In addition, the IRS expects to provide customer service assistance via telephone, website, social media, and face-to-face assistance to millions of taxpayers. The IRS plans to process individual income tax returns at five Wage and Investment Division Submission Processing sites² during the 2014 Filing Season.

***The IRS expects to receive
149.8 million individual
income tax returns during
Calendar Year 2014.***

One of the challenges the IRS confronts each year in processing tax returns is the implementation of new tax law changes as well as changes resulting from expired tax provisions. Before the filing season begins, the IRS must identify the tax law and administrative changes affecting the upcoming filing season. Once identified, the IRS must revise the various tax forms, instructions, and publications. It also must reprogram its computer systems to ensure that tax returns are accurately processed. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, and/or result in incorrect taxpayer notices.

Tax law changes affecting the 2014 Filing Season

- ***The Patient Protection and Affordable Care Act³ (ACA)*** – Enacted March 23, 2010, this act contains revenue provisions designed to generate \$438 billion to help pay for the overall cost of health care reform. The provisions that created additional taxes or modified existing tax provisions for taxpayers filing their Tax Year 2013 tax returns include:
 - Adding a 3.8 percent Surtax on Net Investment Income for certain taxpayers. The threshold amount is based on filing status and is equal to: \$250,000 for joint returns

¹ See Appendix V for a glossary of terms.

² Fresno, California; Kansas City, Missouri; and Austin, Texas, will process paper and e-filed tax returns. Andover, Massachusetts, and Philadelphia, Pennsylvania, will process only e-filed tax returns.

³ Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.



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- or surviving spouse statuses; \$125,000 for individuals using married filing separate status; and \$200,000 for all other statuses.
- Increasing the employee share of Medicare tax by an additional 0.9 percent of wages or self-employment income. The Additional Medicare Tax increases the employee share of Medicare tax by an additional 0.9 percent of covered wages in excess of threshold amounts based on the taxpayer's filing status. The Additional Medicare Tax also increases Medicare tax on self-employment income by an additional 0.9 percent of self-employment income in excess of the threshold amounts, based upon filing status. The threshold wage/income amounts by filing status are: \$200,000 for single and head of household; \$250,000 for married filing joint or surviving spouse statuses; and \$125,000 for married filing separate.
 - Increasing the adjusted gross income (AGI) threshold for the medical expense deduction. In prior tax years, taxpayers who itemized their deductions could claim a deduction for qualified unreimbursed medical expenses that exceeded 7.5 percent of their AGI. Starting with Tax Year 2013, the percentage by which expenses must exceed the AGI was increased to 10 percent. The only exception to this rule is for taxpayers who are age 65 or older before the close of the tax year. Taxpayers in this situation may still apply the 7.5 percent rule through Tax Year 2016, at which time it will be 10 percent for all taxpayers.
 - ***American Taxpayer Relief Act of 2012***⁴ – Enacted January 2, 2013, this act increased taxes for some taxpayers and generally extended or made permanent many of the tax provisions that were set to expire at the end of Calendar Year 2012 including:
 - Adding a 39.6 percent individual income tax rate for high-income earners. Income levels subject to the tax bracket differ depending upon filing status and are adjusted on a yearly basis for inflation. For Tax Year 2013, the income levels subject to the new tax rate by filing status are: \$450,000 for married filing joint and surviving spouse; \$425,000 for head of household; \$400,000 for single; and \$225,000 for married filing separate statuses.
 - Increasing the maximum rate on Capital Gains Tax for high-income earners. The maximum rate was increased to 20 percent for certain individuals. The income levels subject to the increased rate differ depending upon filing status and are adjusted on a yearly basis for inflation. For Tax Year 2013, the income levels subject to the new rate are: \$450,000 for married filing joint and surviving spouse; \$425,000 for head of household; \$400,000 for single; and \$225,000 for married filing separate statuses.
 - Reinstating the limit on personal exemption. Income levels subject to the limitation differ based upon filing status and are adjusted on a yearly basis for inflation. For

⁴ Pub. L. No. 112-240, 126 Stat. 2313 (2013).



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- Tax Year 2013, the income levels subject to the limitation are: \$250,000 for single, \$300,000 for married filing joint; \$150,000 for married filing separate; and \$275,000 for head of household statuses.
- Reinstating the limit on itemized deductions (Pease limitation). Income levels subject to the limitation differ based upon filing status and are adjusted on a yearly basis for inflation. For Tax Year 2013, the income levels subject to the limitation are: \$250,000 for single, \$300,000 for married filing joint; \$150,000 for married filing separate; and \$275,000 for head of household.
 - Extending the American Opportunity Tax Credit. Extended the credit for up to \$2,500 in qualified expenses incurred during the first four years of post-secondary or technical program education through Calendar Year 2017. Up to \$1,000 of the credit is refundable.
 - Extending the Earned Income Tax Credit (EITC) for families with three or more qualifying children. Extended the higher EITC available for families with three or more qualifying children through Calendar Year 2017. For Tax Year 2013, the maximum EITC for a family with three or more qualifying children is \$6,044.
 - Increasing the annual gift tax exclusion. For Tax Year 2013, up to \$14,000 in gifts can be made tax free without affecting an individual's lifetime estate and gift tax exclusion.
 - Extending the standard deduction and the 15 percent tax bracket for married filing jointly filers at double that of single filers. The standard deduction for married taxpayers filing as joint filers would have reverted back to 167 percent of the standard deduction for single taxpayers.
 - ***Federal Recognition of Same-Sex Marriage*** – On June 26, 2013, the U.S. Supreme Court struck down Section 3 of the Defense of Marriage Act⁵ in the case *United States vs. Windsor*, allowing the IRS to recognize same-sex marriage for Federal tax purposes. The ruling was applied retroactively, enabling affected taxpayers to amend prior year tax returns for years not closed by the statute of limitations.

The interim 2014 Filing Season results are being presented as of several dates between February 28 and March 10, 2014, depending on when data were available. Later this year, we will issue our 2014 Filing Season report. This review was performed at the Wage and Investment Division Headquarters in Atlanta, Georgia; the Wage and Investment Division Submission Processing function offices in Cincinnati, Ohio; and the Information Technology organization Headquarters in Lanham, Maryland. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that

⁵ Defense of Marriage Act (DOMA) Pub. L. No. 104-199 110 Stat. 2419 (1996) (codified at 1 U.S.C. § 7 and 28 U.S.C. § 1738C).



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we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

Processing Tax Returns

The IRS originally planned to begin processing individual tax returns on January 21, 2014. However, for the second consecutive year, the IRS delayed the start of the filing season. The 2014 Filing Season was delayed as a result of the closure of Government operations between October 1 and October 16, 2013. On December 18, 2013, the IRS announced it was delaying the start of the 2014 Filing Season until January 31, 2014, to allow it adequate time to program and test the more than 50 IRS systems needed to process tax returns. According to the IRS, the October 2013 closure put preparations for the filing season nearly three weeks behind its already tight timetable.

As of March 7, 2014, the IRS received more than 67.1 million tax returns. Taxpayers are e-filing a higher proportion of tax returns than in the 2013 Filing Season. When comparing filing season statistics throughout the report, it should be noted that additional delays in processing some tax returns during the 2013 Filing Season resulted in fewer tax returns received and processed as of the same period when compared to the 2014 Filing Season. Although the IRS began processing individual tax returns at approximately the same time last year (January 30, 2013), the IRS was unable to accept and process some individual income tax returns until March 4, 2013.⁶ Figure 1 presents comparative filing season statistics as of March 7, 2014.

⁶ The tax forms the IRS was unable to process when the 2013 Filing Season began include: Form 5695, *Residential Energy Credits*; Form 4562, *Depreciation and Amortization (Including Information on Listed Property)*; Form 3800, *General Business Credit*; and Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits)*.



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**Figure 1: Comparative Filing Season Statistics
(as of March 7, 2014)**

Cumulative Filing Season Data	2013 Actual (3-8-13)	2014 Actual (3-7-14)	% Change
Individual Income Tax Returns			
Total Returns Received (000s)	67,143	67,183	0.1%
Paper Returns Received (000s)	5,655	4,970	-12.1%
E-Filed Returns Received (000s)	61,488	62,213	1.2%
Practitioner Prepared (000s)	35,585	34,816	-2.2%
Home Computer (000s)	25,903	27,397	5.8%
Free File (000s) <i>(also in the Home Computer total)</i>	1,675	1,880	12.2%
Fillable Forms (000s) <i>(also in the Home Computer total)</i>	213	143	-33.08%
Percent of Returns E-Filed	91.6%	92.6%	1.1%
Refunds			
Total Number Issued (000s)	53,447	55,434	3.7%
Total \$ (in millions)	\$154,696	\$164,586	6.4%
Average \$	\$2,894	\$2,969	2.6%
Total Number of Direct Deposits (000s)	47,177	47,976	1.7%
Total Direct Deposit \$ (in millions)	\$142,861	\$146,305	2.4%

Source: IRS 2014 Weekly Filing Season reports. Totals and percentages shown are rounded.

The IRS continues to modernize its filing season applications through the Customer Account Data Engine (CADE) 2 database

The IRS indicated that it continues to modernize its filing season applications in Fiscal Year 2014 under the CADE 2 program, with full filing season deployment of the CADE 2 database in January 2014. Performance, data quality, and operational processes will be proven out during Filing Season 2014 by running the initialized CADE 2 database in parallel with the Individual Master File throughout the filing season, validating the data quality and system performance.



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Use of the savings bond and split refund options continues to grow, but some preparers are continuing to misuse the split refund option

Through March 6, 2014, a total of 22,174 individuals requested to convert tax refunds totaling more than \$7.8 million into savings bonds. In addition, 585,331 individuals chose to split tax refunds totaling more than \$2.6 billion between two or three different checking and savings accounts. Figure 2 shows a comparison of taxpayers' use of the split refund and savings bond options for Processing Years 2013 and 2014 as of March 6, 2014.

**Figure 2: Use of Savings Bonds and Split Refunds
for Processing Years 2013 and 2014
(as of March 6, 2014)**

Savings Bonds	2013 Actual	2014 Actual
Total Returns	21,859	22,174
Total Refunds to Bonds \$ (in thousands)	\$7,900	\$7,886

Split Refunds		
Total Returns	527,872	585,331
Total Refunds Split \$ (in thousands)	\$2,350,000	\$2,660,000

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of the IRS Individual Return Transaction File as of March 6, 2014. Totals are rounded.

Our preliminary analysis of Form 8888, *Allocation of Refund (Including Savings Bond Purchases)*, found that tax return preparers appear to be continuing to misuse the split refund option. We identified 346,666 tax returns with a Form 8888 requesting direct deposits totaling more than \$147 million into 25,308 bank accounts as of March 6, 2014. Each of the 25,308 bank accounts we identified had three or more Form 8888 deposits from different taxpayers into these accounts during this filing season – 6,726 bank accounts had three deposits, 17,302 bank accounts had four to 50 deposits, and 1,280 bank accounts had 50 or more deposits. Of those, six bank accounts had more than 1,000 deposits made to them. We determined that 183,241 (53 percent) of the 346,666 tax returns were prepared by paid tax return preparers.

Form 8888 instructions state that the form is to be used only for the deposit of a tax refund to an account in the taxpayer's name. Taxpayers are not to use Form 8888 to direct a portion of a tax refund to the tax return preparer for payment of services rendered or any other purpose. Despite this, 6,762 of the 25,308 bank accounts listed on the Forms 8888 were associated with 5,893 paid tax return preparers.



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During the 2013 Filing Season, TIGTA reported that it appeared paid preparers were misusing the split refund option.⁷ TIGTA provided the IRS with 452 paid preparers associated with 248,027 direct deposits. The IRS reviewed the 452 paid preparers and as of February 13, 2014, determined that 28 of them already had open criminal investigations or had been referred for examination. The IRS chose not to pursue the remaining 424 preparers because it determined its resources could be better used elsewhere.

IRS management also indicated that the IRS is developing a systemic restriction to limit the number of deposits (three) to a single bank account. After three deposits to a single account, including situations in which refunds are split, the entire refund amount will be sent by paper check to the taxpayer at the address of record. The change is expected to reduce the number of preparers who inappropriately divert the client refund or the preparer fee into an account controlled by the preparer. It is also expected to reduce identity theft and fraud. The IRS expects to have the systemic restriction process in place for the 2015 Filing Season.

Ensuring accuracy of tax returns during processing

The delay in the start of the filing season delayed our assessment of the accuracy of the IRS's processing of many of the tax law changes affecting Tax Year 2013. We will provide the final results of our assessment of the following provisions in our 2014 Filing Season report that will be issued later this year:

- Net Investment Income Tax.
- Additional Medicare Tax.
- Increased AGI threshold for the medical expense deduction.
- New 39.6 percent individual income tax rate for high-income earners.
- Increased capital gains tax for high-income earners.
- Federal recognition of same-sex marriage.

The number of paid tax return preparers who file tax returns claiming the EITC without the due diligence checklist decreased substantially

The number of paid tax return preparers who file tax returns claiming the EITC with a missing or incomplete Form 8867, *Paid Preparer's Earned Income Credit Checklist*, has declined since Processing Year 2012. Figure 3 shows the number of tax return preparers we identified during the 2012 through 2014 Filing Seasons who were not compliant with the Form 8867 requirement.

⁷ TIGTA, Ref. No. 2013-40-124, *Late Legislation Delayed the Filing of Tax Returns and Issuance of Refunds for the 2013 Filing Season* (Sept. 2013).



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Figure 3: Comparison of Preparer Noncompliance With Form 8867 Requirements – 2012 Through 2014 Filing Seasons (as of March each year)⁸

	2012	2013 ⁹	2014
Noncompliant Preparers	35,987	80,585	9,531
Number of Tax Returns	300,830	612,622	22,387

Source: IRS Wage and Investment Division research and analysis for the 2012 Filing Season. TIGTA analysis for the 2013 and 2014 Filing Seasons.

Since enactment of the Form 8867 requirement and the related due diligence penalty, the IRS has conducted extensive outreach and education for preparers to inform them of the requirement. In addition, the IRS has worked with tax return preparation software developers to include requirements in their software applications that will assist tax return preparers in being compliant with the Form 8867 requirement. However, some tax return preparers continue to file tax returns claiming millions of dollars in the EITC without the Form 8867, and the IRS has yet to assess the due diligence penalty. As of March 6, 2014, we identified 9,531 paid tax return preparers filing 22,387 tax returns claiming more than \$52 million in the EITC without a completed Form 8867. This equates to more than \$11 million in penalties that could be assessed by the IRS.

In October 2011, Congress increased the penalty for tax return preparers who do not comply with the EITC due diligence rules from \$100 to \$500 effective January 1, 2012. According to the House of Representatives report,¹⁰ the penalty was increased to deter noncompliance and for budgetary offset purposes. Beginning with the 2012 Filing Season, paid tax return preparers who prepare a tax return claiming the EITC must include Form 8867 with the tax return. Preparers who do not adhere to this requirement can be assessed a \$500 due diligence penalty for each tax return they submit without the required Form 8867.

- Internal Revenue Code Section 6695(g) states: *Any person who is a tax return preparer with respect to any return or claim for refund who fails to comply with due diligence requirements imposed by the Secretary by regulations with respect to determining eligibility for, or the amount of, the credit allowable by section 32 shall pay a penalty of \$500 for each such failure.*

⁸ The 2012 Filing Season is as of the week ending March 8, 2012; the 2013 Filing Season is as of the week ending March 7, 2013; and the 2014 Filing Season is as of the week ending March 6, 2014.

⁹ According to the IRS, the increase in the number of noncompliant tax return preparers during the 2013 Filing Season was due in part to errors in the software used to prepare tax returns.

¹⁰ H.R. Rep. No. 112-239, at [20-21] (2011).



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- Section 1.6695–2 of Title 26 of the Code of Federal Regulations states: *The tax return preparer must complete Form 8867, Paid Preparer’s Earned Income Credit Checklist, or such other form and such other information as may be prescribed by the Internal Revenue Service.*Cde12vfrbg
- Form 8867 states: *If you checked “No” on line 20, 21, 22, 23, 24, or 25, you have not complied with all the due diligence requirements and may have to pay a \$500 penalty for each failure to comply.*

In both our 2012 and 2013 Filing Season reports, we raised concerns to the IRS regarding the lack of assessment of the due diligence penalty against tax return preparers who do not comply with the Form 8867 requirement.¹¹ Figure 4 shows potential due diligence penalties the IRS could have assessed on tax return preparers who did not comply with the Form 8867 requirement during the 2012 and 2013 Filing Seasons.

Figure 4: Potential Due Diligence Penalties That Could Have Been Assessed During the 2012 and 2013 Filing Seasons (as of May each year)¹²

Filing Season	Tax Returns	EITC Claimed	Potential Penalties
2012	533,817	\$1,541,031,460	\$266,908,500
2013	708,298	\$2,042,003,113	\$354,149,000
Total	1,242,115	\$3,583,034,573	\$621,057,500

Source: TIGTA analysis of tax returns processed during the 2012 and 2013 Filing Seasons.

The IRS informed us that on January 24, 2014, it sent 778 tax return preparers a penalty letter proposing penalties totaling more than \$13 million. Tax return preparers had 30 calendar days to respond to the letter and request an Appeals hearing. As such, no penalties have been assessed as of February 25, 2014. We will continue to monitor tax return preparers’ compliance with Form 8867 requirements as well as the IRS’s efforts to ensure compliance.

As in previous filing seasons, the IRS indicated that it is identifying tax returns filed without a completed Form 8867 throughout the 2014 Filing Season and will assess due diligence penalties against noncompliant tax return preparers at the completion of the filing season. The IRS is

¹¹ TIGTA, Ref. No. 2012-40-119, *The Majority of Individual Tax Returns Were Processed Timely, but Not All Tax Credits Were Processed Correctly During the 2012 Filing Season* (Sept. 2012) and TIGTA, Ref. No. 2013-40-124, *Late Legislation Delayed the Filing of Tax Returns and Issuance of Refunds for the 2013 Filing Season* (Sept. 2013).

¹² The 2012 Filing Season is as of the week ending March 8, 2012; the 2013 Filing Season is as of the week ending March 7, 2013; and the 2014 Filing Season is as of the week ending March 6, 2014.



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notifying paid preparers this year each time a return is submitted without a required Form 8867 attached. According to the IRS, 723 letters have been sent to noncompliant preparers as of March 6, 2014. In addition, preparers filing electronically receive an electronic alert when the Form 8867 is not provided.

Detecting and Preventing Tax Refund Fraud

As of March 8, 2014, the IRS reported that it identified 57,316 tax returns with \$385 million¹³ claimed in fraudulent refunds and prevented the issuance of \$336 million (87.3 percent) of those refunds.¹⁴ Figure 5 shows the number of fraudulent tax returns identified by the IRS, including prisoner and identity theft tax returns, for Processing Years 2011 through 2013 as well as the refund amounts that were claimed and stopped.

Figure 5: Fraudulent Returns and Refunds Identified and Stopped in Processing Years 2011 Through 2013

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refunds Identified	Amount of Fraudulent Refunds Stopped
2011	2,176,657	1,756,242	\$16,186,395,218	\$14,353,795,007
2012	3,422,505	3,110,788	\$20,721,203,369	\$19,247,812,922
2013	2,556,935	2,360,180	\$16,456,632,993	\$15,690,434,978

Source: IRS fraudulent tax return statistics for Processing Years 2011 through 2013.

The decrease in the number of fraudulent tax refunds, including prisoner and identity theft tax returns, the IRS detected and stopped in Processing Year 2014 may be attributed to expanded IRS processes to prevent fraudulent tax returns from entering the tax processing system (*i.e.*, rejecting attempts to e-file a fraudulent tax return). According to the IRS, expanded use of controls to identify fraudulent refund claims before they are accepted into the processing system had identified 555,235 fraudulent tax returns as of February 28, 2014.

¹³ The IRS indicated that of the \$385 million claimed and \$336 million stopped in fraudulent refunds, one return had a refund totaling \$96,250,000 that was claimed.

¹⁴ The delay in processing some tax returns has contributed to the decrease in the number of fraudulent tax returns the IRS has identified as of this date.



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Detection of tax returns involving identity theft

The IRS continues to expand identity theft filters to identify fraudulent tax returns at the time they are processed. The IRS expanded the number of identity theft filters it uses to identify potentially fraudulent tax returns and prevent the issuance of fraudulent tax refunds from 80 filters during Processing Year 2013 to 114 filters during Processing Year 2014. The identity theft filters incorporate criteria based on characteristics of confirmed identity theft tax returns. These characteristics include amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, and filing history.

Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. The IRS attempts to contact the individual who filed the tax return and, if this individual's identity cannot be confirmed, the IRS removes the tax return from processing. This prevents the issuance of many fraudulent tax refunds. As of February 28, 2014, the IRS reported that it identified and confirmed 28,076 fraudulent tax returns and prevented the issuance of nearly \$143 million in fraudulent tax refunds as a result of the identity theft filters.

Figure 6 shows the number of identity theft tax returns the IRS identified and confirmed as fraudulent in Processing Years 2012 through 2014.

Figure 6: Identity Theft Tax Returns Confirmed As Fraudulent in Processing Years 2012 Through 2014 (as of February 28, 2014)

Processing Year	Number of Identity Theft Returns
2012	185,657
2013	85,385
2014	28,076

Source: IRS fraudulent tax return statistics for Processing Years 2012 through 2014 as of February 28, 2014.

We are currently conducting a review of the IRS's efforts to detect and prevent identity theft. We are also conducting a separate review of the IRS's efforts to assist victims of identity theft. We will issue these reports later this fiscal year.

Screening of prisoner tax returns

As of March 8, 2014, the IRS reports that it identified 36,801 potentially fraudulent tax returns filed by prisoners for screening. Figure 7 shows the number of prisoner tax returns identified for screening in Processing Years 2012 through 2014.



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Figure 7: Prisoner Tax Returns Identified for Screening in Processing Years 2012 Through 2014 (as of March 8, 2014)

Processing Year	Number of Prisoner Tax Returns Identified for Screening
2012	71,594
2013	43,684
2014	36,801

Source: IRS fraudulent tax return statistics for Processing Years 2012 through 2014 as of March 8, 2014.

We are currently conducting a separate review of the IRS's efforts to improve the detection and prevention of prisoner tax fraud and plan to issue a report later this fiscal year.

Providing Customer Service

Taxpayers have several options to choose from when they need assistance from the IRS, including telephone assistance through the toll-free telephone lines, face-to-face assistance at the Taxpayer Assistance Centers (TAC) and/or Volunteer Program sites, and self-assistance through IRS.gov and social media channels.

Face-to-face assistance at the TACs

Each year, many taxpayers seek assistance from one of the IRS's 389 walk-in offices, called TACs. However, the IRS estimates that the number of taxpayers it will assist at its TACs will decrease this fiscal year. The IRS assisted more than 6.5 million taxpayers in Fiscal Year 2013 and plans to assist 5.6 million taxpayers in Fiscal Year 2014, which is 14 percent fewer than in Fiscal Year 2013. The IRS indicated that budget cuts and its strategy of not offering services at TACs that can be obtained through other service channels, such as the IRS's website, result in the reduction of the number of taxpayers the IRS plans to assist at the TACs.

Furthermore, in Fiscal Year 2014, the IRS eliminated or drastically reduced services at TACs. The TACs are no longer preparing tax returns. Taxpayers seeking this assistance will be referred to Volunteer Income Tax Assistance sites or other free preparation options for assistance. TAC assistors will only answer basic tax law questions during the filing season and will not answer any tax law questions after April 15, 2014. After April 15, 2014, the IRS will direct all tax law inquiries to alternative services such as IRS.gov, Tele-Tax, commercial software packages, or a tax professional. In addition, TACs will no longer answer taxpayers' tax refund inquiries unless



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the taxpayer has waited more than 21 days for the refund. Taxpayers with refund inquiries will be referred to the “Where’s My Refund?” application on IRS.gov. Finally, the TACs are transitioning to no longer provide transcripts upon request without extenuating circumstances. For the 2014 Filing Season, TACs will still provide transcripts but are encouraging taxpayers to obtain them through other sources.

Figure 8 shows the number of contacts by product line at the TACs for Fiscal Years 2011 through 2014.

Figure 8: Contacts for Fiscal Years 2011 Through 2014 (in millions)

Contacts/Product Lines	Fiscal Year			
	2011	2012	2013	2014 Projections
Tax Accounts Contacts	3.7	4.3	4.4	3.6
Forms Contacts	0.6	0.6	0.5	0.4
Other Contacts ¹⁵	1.5	1.7	1.5	1.5
Tax Law Contacts	0.3	0.2	0.2	0.1
Tax Returns Prepared ¹⁶	0.3	N/A	N/A	N/A
Totals	6.4	6.8	6.5	5.6

Source: IRS management information reports. Totals shown are rounded.

We are currently conducting a separate review of the effectiveness and efficiency of the TAC Program and plan to issue a report later this fiscal year.

Toll-free telephone assistance

As of March 8, 2014, approximately 46.3 million taxpayers contacted the IRS by calling the various customer service toll-free telephone assistance lines seeking help to understand the tax law and meet their tax obligations.¹⁷ IRS assistors have answered 6 million calls and have

¹⁵ Other Contacts includes but is not limited to: Form 2063, *U.S. Departing Alien Income Tax Statement*, date-stamping tax returns brought in by taxpayers, screening taxpayers for eligibility of service, scheduling appointments, and helping taxpayers with general information such as addresses and directions to other IRS offices or other Federal Government agencies.

¹⁶ In Fiscal Years 2012, 2013, and 2014, Tax Returns Prepared is included in Other Contacts.

¹⁷ The IRS refers to the suite of 29 telephone lines to which taxpayers can make calls as “Customer Account Services Toll-Free.”



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achieved a 74.7 percent Level of Service with an 11.7 minute Average Speed of Answer. The Level of Service for Filing Season 2013 was 67.9 percent. The IRS forecasted a 70.2 percent Level of Service for the 2014 Filing Season. Figure 9 shows a comparison of IRS toll-free telephone statistics through March 8, 2014, for Fiscal Years 2011 through 2014.

**Figure 9: Toll-Free Filing Season Telephone Statistics
for Fiscal Years 2011 Through 2014
As of March 8, 2014**

Statistic	Fiscal Year			
	2011	2012	2013	2014
Assistor Calls Answered	9,560,407	8,252,582	8,183,476	6,038,861
Level of Service	72.6%	66.8%	67.9%	74.7%
Average Speed of Answer (Seconds)	618	956	845	704

Source: IRS management information reports as of March 8, 2014.

Although the IRS is reporting an increase in the Level of Service, IRS numbers continue to show a decline in the total number of taxpayers who contact the IRS who are actually assisted. As of March 8, 2014, the number of taxpayers actually assisted has dropped from 56.1 percent to 51.6 percent as of the same time last year.¹⁸ We previously reported that the Level of Service measure does not accurately reflect total call demand (*i.e.*, total number of taxpayers attempting to call the IRS).¹⁹ The Level of Service only measures the percentage of calls in the queue waiting to be answered by an assistor that are actually answered. The Level of Service does not measure the success of taxpayers attempting to call the IRS to use the IRS's automated services. The IRS can manage the Level of Service by increasing or decreasing the number of calls it allows in to the assistor queue.

Tax preparation assistance at Volunteer Program sites

The Volunteer Program continues to play an important role in the IRS's efforts to improve taxpayer service and facilitate participation in the tax system. It provides no-cost Federal tax return preparation and e-filing to underserved taxpayer segments, including low-income, elderly, persons with disabilities, rural, Native Americans, and limited-English-proficient taxpayers. As

¹⁸ Using automation or live assistance, the IRS answered 31.6 million of the 56.3 million calls received as of March 8, 2013 (56.1 percent) and 23.9 million of the 46.3 million calls received as of March 8, 2014 (51.6 percent).

¹⁹ TIGTA, Ref. No. 2009-40-127, *Higher Than Planned Call Demand Reduced Toll-Free Telephone Access for the 2009 Filing Season* (Sept. 2009).



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of March 9, 2014, more than 1.8 million tax returns have been prepared at the 12,319 Volunteer Program sites nationwide. Figure 10 shows the number of tax returns prepared by volunteers from Fiscal Years 2011 through 2013.

**Figure 10: Volunteer Program Statistics
for Fiscal Years 2011 Through 2013**

	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Percentage Change (Fiscal Year 2012 to Fiscal Year 2013)
Tax Returns	3,188,524	3,264,997	3,406,182	4.3%
Volunteers	88,527	98,978	91,820	-7.2%
Sites	12,486	13,143 ²⁰	13,081	-0.5%

Source: IRS management information system containing Fiscal Years 2011 through 2013 information. Percentages are rounded.

Self-assistance through IRS.gov and social media channels

The IRS continues to offer more self-assistance options that taxpayers can access 24 hours a day, seven days a week. For example, the IRS offers IRS2Go, which is a mobile application that lets taxpayers interact with the IRS using their mobile device to access information and a limited number of IRS tools. In addition, the IRS uses various forms of social media including YouTube, Twitter, Tumblr, and Facebook. As of March 7, 2014, the IRS reports approximately 2.3 million new downloads and updates of its IRS2Go mobile application, for a total of 5.5 million since its inception. As of March 10, 2014, there have been more than 583,000 new views of IRS YouTube videos and a 7 percent increase in Twitter followers, for a total of 81,605 total followers.



Foremost is the IRS's public Internet site, IRS.gov. The IRS reports 181.2 million visits to IRS.gov this filing season. It reports a 1.4 percent increase in the number of taxpayers obtaining their refund information online via the "Where's My Refund?" option found on IRS.gov. Figure 11 shows the year-to-date comparisons of various IRS.gov activity levels for the 2011 through 2014 Filing Seasons.

²⁰ The Tax Returns and Sites totals do not include tax returns prepared using Facilitated Self-Assistance kiosks.



Figure 11: Year-to-Date Comparisons of the IRS.gov Activity Levels for the 2011 Through 2014 Filing Seasons²¹

	2011 Actual	2012 Actual	2013 Actual	2014 Actual
IRS.gov Visits	119,793,481	167,038,289	197,651,780	181,196,235
"Where's My Refund?"	43,309,204	86,861,305	123,090,163	124,799,672

Source: IRS 2011 through 2014 Weekly Filing Season reports.

Some self-assistance tools were not timely updated with the most current tax information

Although the IRS is increasing its reliance on self-assistance options to help taxpayers, not all of the self-assistance tools were updated with the most current tax information before the filing season began. For example, in January 2014, the IRS promoted ("tweeted" via Twitter) its self-service interactive tools available on IRS.gov. A review of these tools found that 25 of the 28 tools promoted by the IRS were not updated to reflect Tax Year 2013 information.²²

The majority of the tools that were not updated are available through the Interactive Tax Assistant. The Interactive Tax Assistant tool is a tax law resource that takes users through a series of questions and provides them with responses to tax law questions. The IRS did provide users of these tools with a disclaimer on the homepage of the Interactive Tax Assistant which read:

"The tool is currently being updated for tax year 2013. Be aware that using the 2012 tax year will generally provide a correct answer, however changes to income and adjusted gross incomes include thresholds for 2013 may result in an incorrect answer if those thresholds are applicable."

We informed the IRS of our concerns with the accuracy of the self-assistance tools on January 30, 2014. On February 13, 2014, IRS management responded to our concerns, explaining that the IRS's education and communication process starts in advance of the opening of tax return processing and involves raising visibility or awareness about the availability of a general service or product even before the service is available. The "go-live" dates for tools vary but are optimally current before or when the filing season opens. According to the IRS, highly specialized training is required to properly develop and maintain the self-assistance tools. The sequester and the Federal Government shutdown along with newly enacted travel restrictions for specialized training negatively affected the IRS's implementation plan for delivery of these

²¹ The 2011 Filing Season is through the week ending March 5, 2011; the 2012 Filing Season is through the week ending March 3, 2012; the 2013 Filing Season is through the week ending March 8, 2013; and the 2014 Filing Season is through the week ending March 8, 2014.

²² See Appendix IV for a complete list of the interactive tools.



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topics. IRS management also informed us that the IRS is in the process of updating the self-assistance tools.

YouTube videos were not updated with the most current tax information

We reviewed the YouTube videos available on the IRS YouTube channels for 18 tax subjects²³ that directly relate to the 2014 Filing Season. When exceptions were noted, we also reviewed the American Sign Language version of the videos. We found that the following videos were outdated and therefore contained inaccurate information:

- *Medical and Dental Expenses* – the video did not include the new 10 percent of AGI restriction for taxpayers under age 65.
- *Gift Taxes* – the video stated that the gift exemption is \$13,000, but for Tax Year 2013, the correct amount is \$14,000.
- *Do I have to File a Tax Return?* – the video states that single taxpayers who earned a little more than \$9,000 need to file, but that figure is now \$10,000.

We notified the IRS of our concerns with the YouTube videos on February 6, 2014. On February 12, 2014, IRS management informed us that they are in the process of updating the YouTube videos we identified, and the outdated versions of the videos were removed from IRS.gov. The IRS released a new and accurate *Medical and Dental Expenses* video on February 25, 2014. The remaining videos have not yet been updated.

Accounts Management function over-age correspondence inventory continues to grow

The over-age correspondence inventory rose from approximately 181,000 at the end of Processing Year 2010 to almost 1.19 million at the end of Processing Year 2013, representing an increase of 556 percent.²⁴ Correspondence inventory includes but is not limited to amended tax returns, responses to taxpayer notices, identity theft cases, and applications for Individual Taxpayer Identification Numbers and is considered over-aged when it has been in inventory for more than 45 calendar days. Figure 12 provides a comparison of the correspondence inventory for Processing Years 2010 through 2013.

²³ See Appendix IV for a complete list of the videos.

²⁴ Numbers have been rounded. The percentage of change is based on the actual inventory volumes as of the end of Processing Years 2010 and 2013. See Figure 12 for actual inventory volumes.



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Figure 12: Year-to-Date Comparisons as of the End of the 2010 Through 2013 Processing Years

	2010	2011	2012	2013
Total Inventory	1,292,453	2,013,556	2,401,845	2,580,527
Over-Age Volume	180,938	605,739	592,536	1,187,255
Percent Over-Aged	14.0%	30.1%	24.7%	46.0%

Source: IRS Accounts Management Inventory Report – Inventory Age Reports.

IRS management indicated that the continued increase in the over-age correspondence inventory is the result of reduced Accounts Management function resources. According to IRS management, allocating these limited resources requires difficult decisions to handle the numerous programs throughout the Accounts Management function. IRS management stated that their focus has been to maximize taxpayer assistance on the toll-free telephone lines during filing season while concentrating any remaining resources toward various priority programs such as identity theft and aged work. The IRS anticipates additional resource availability for the remaining inventory types as a result of continued reduction in identity theft inventories and additional benefits derived from the IRS's demand management strategies.

We are planning to conduct a separate review of the IRS's processing of Accounts Management function correspondence during Fiscal Year 2015.



Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide selected information related to the IRS's 2014 Filing Season.¹ TIGTA plans to issue the final results of our analysis of the 2014 Filing Season in September 2014. To achieve this objective, we:

- I. Identified volumes of paper and e-filed tax returns received through March 7, 2014, from the IRS Weekly Filing Season reports that provide a year-to-date comparison of scheduled return receipts to actual return receipts. The reports also provide a comparison to Fiscal Year 2013 receipts for the same period.
- II. Monitored online news outlets and forums to identify any preparation, filing, or processing issues that taxpayers are experiencing.
- III. Determined if the IRS has correctly implemented selected tax legislation that affects the processing of individual taxpayer returns during the 2014 Filing Season.
- IV. Followed up on findings previously reported by TIGTA to ensure that the IRS has taken the agreed upon action to resolve the issues.
- V. Identified online self-help applications provided by the IRS and ensured that the information and results provided are accurate.
- VI. Determined if the IRS monitoring systems indicate that individual tax returns are being processed timely and accurately.
- VII. Compiled statistical information that is of interest to external stakeholders.
 - A. Quantified fraudulent tax returns and tax returns filed by prisoners.
 - B. Determined whether individuals are using the savings bond option for direct purchase of savings bonds from their refunds.
 - C. Determined whether individuals have significantly increased their use of the split refund option for depositing their refunds.
 - D. Identified results for the TAC Program.
 - E. Identified results for the Toll-Free Telephone Assistance Program.
 - F. Identified results for the Volunteer Income Tax Assistance Program.

¹ See Appendix V for a glossary of terms.



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G. Identified results for IRS self-assistance through IRS.gov.

H. Identified results for the Accounts Management function correspondence inventory.

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 include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the processes for planning, organizing, directing, and controlling program operations for the 2014 Filing Season. We also evaluated the controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing of tax returns for the 2014 Filing Season.



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Appendix II

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Operations, Wage and Investment Division SE:W
Deputy Commissioner, Support, Wage and Investment Division SE:W
Director, Business Modernization Office, Wage and Investment Division SE:W:BMO
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
SE:W:CAR
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PEI
Director, Accounts Management, Wage and Investment Division SE:W:CAS:AM
Director, Field Assistance, Wage and Investment Division SE:W:CAR:FA
Director, Joint Operation Center, Wage and Investment Division SE:W:CAS:JOC
Director, Stakeholder Partnership, Education, and Communications, Wage and Investment
Division SE:W:CAR:SPEC
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
Director, E-File Services, Wage and Investment Division SE:W:CAS:SP:eFS
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Chief, Program Evaluation and Improvement, Wage and Investment Division
SE:W:S:PEI



Appendix IV

Interactive Self-Help Tools and YouTube Videos

Interactive Self-Help Tools	IRS YouTube Videos Reviewed
<ul style="list-style-type: none"> • Do I Need to File a Tax Return? • Who Can I Claim as a Dependent? • How Much Can I Deduct for Each Exemption I Claim? • What is My Filing Status? • What is the simplest form to use to file my taxes? • How Do I File a Deceased Person's Tax Return? • Can I Claim My Personal and/or Spousal Exemption? • How Much is My Standard Deduction? • Can I Deduct My Charitable Contributions? • Can I Deduct My Mortgage Related Expenses? • Can I Claim My Expenses as Miscellaneous Itemized Deductions on Schedule A (Form 1040)? • Do I Need To Claim My Gambling Winnings and Can I Deduct My Gambling Losses? • Can I Deduct My Medical and Dental Expenses? • Can I Deduct My Moving Expenses? • Can I Claim a Deduction For Student Loan Interest? • Am I Eligible for the Child Tax Credit? • Am I Eligible to Claim an Education Credit? • Do I Qualify for the Credit for the Elderly or Disabled? • Am I Eligible for the Making Work Pay Credit or Government Retiree Credit? • Is My Pension or Annuity Payment Taxable? • Are My Social Security or Railroad Retirement Tier I Benefits Taxable? • Do I Have Cancellation of Debt Income on My Personal Residence? • Is My Residential Rental Income Taxable and/or Are My Expenses Deductible? • Earned Income Tax Credit (EITC) Assistant • Sales Tax Deduction Calculator • Alternative Minimum Tax Assistant • First-Time Homebuyer Credit Account Look-up • Where's My Refund? 	<ul style="list-style-type: none"> • Medical and Dental Expenses • Do I Have To File a Tax Return? • Gift Tax • First-Time Homebuyer Credit Account Look-Up Tool • IRS Withholding Calculator • Selling Your Home • Standard Versus Itemized Deductions • Split Refunds-Savings Bonds • Year-End Tax Tips-2013 • Charitable Contributions • Earned Income Tax Credit • Education Tax Credits • Education Tax Credits and Deductions • Estimated Tax Payments • Home Office Deduction • Additional Medicare Tax • IRS Free File • Is Social Security Taxable?

Source: www.YouTube.com and www.IRS.gov.



Appendix V

Glossary of Terms

Adjusted Gross Income	Gross income minus adjustments to income.
Average Speed of Answer	The average number of seconds taxpayers waited in the assistor queue (on hold) before receiving services.
Calendar Year	The 12-consecutive-month period ending on December 31.
Earned Income Tax Credit	A refundable Federal tax credit for low-income working individuals and families.
Facilitated Self-Assistance	An initiative to provide self-help assistance kiosks at the TACs. The kiosks can be used by taxpayers to access IRS.gov to file their tax returns, print tax forms and publications, or conduct tax research.
Filing Season	The period from January 1 through mid-April when most individual income tax returns are filed.
First-Time Homebuyer Credit	A refundable Federal tax credit for individuals who purchase a home.
Fiscal Year	A 12-consecutive-month period ending on the last day of any month. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Free File	A free Federal tax preparation and e-filing program for eligible taxpayers developed through a partnership between the IRS and the Free File Alliance, LLC. The Alliance is a group of private sector tax software companies.
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 returns it receives.
Level of Service	The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS toll-free telephone lines.
Processing Year	The calendar year in which the return or document is processed by the IRS.



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Sequester	About \$1 trillion in automatic, arbitrary across the board budget cuts that started to take effect in 2013.
Submission Processing Site	The data processing arm of the IRS. The sites process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Tax Year	The 12-month period for which tax is calculated. For most individual taxpayers, the tax year is synonymous with the calendar year.
Taxpayer Assistance Centers	Walk-in sites where taxpayers can obtain answers to both account and tax law questions as well as receive assistance in preparing their tax returns.
Volunteer Program	Includes the Volunteer Income Tax Assistance Program, including the Volunteer Income Tax Assistance Grant Program and the Tax Counseling for the Elderly Program. The Volunteer Program provides free tax assistance to persons with low to moderate income (generally \$52,000 and below), the elderly, persons with disabilities, rural, Native Americans, and persons with limited-English proficiency.