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TIGTA Finds Potential for Fraudulent Bond Tax Credit Claims.

Changes to tax credit bonds allowing the tax credits to be separated from bonds and sold to investors have increased the risk for improper or fraudulent tax credit claims, and more IRS oversight is required, the Treasury Inspector General for Tax Administration said in a partially redacted June 26 report.

Vulnerabilities Exist for Improper or

Fraudulent Claims for Bond Tax Credits

HIGHLIGHTS

Final Report issued on June 26, 2013

Highlights of Reference Number: 2013-10-060 to the Internal Revenue Service Office of the Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

Nearly $5 billion in tax credit bonds were issued in Calendar Years 2009 and 2010, resulting in millions of dollars of bond tax credits claimed each year. Without effective IRS oversight, improper or fraudulent credits may be claimed, thereby reducing Federal Government revenue.

WHY TIGTA DID THE AUDIT

This review was initiated as part of TIGTA's Fiscal Year 2013 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives. The overall objective of this review was to evaluate the IRS's progress in identifying and addressing bond tax credit noncompliance.

WHAT TIGTA FOUND

TIGTA conducted an analysis of corporate and individual returns and determined that more than $700 million in bond tax credits were claimed in Tax Years 2010 and 2011.

Changes to the law in Calendar Year 2008 allowed bond tax credits to be stripped, or separated, from the bonds and sold to other investors who could use the credits to reduce their tax liability. These changes increased the risk for improper or fraudulent claims for bond tax credits because the population of taxpayers holding the credits became more diverse and there were no requirements for third-party reporting of information on the stripping and transfer of these credits.

In the first quarter of Calendar Year 2013, the IRS began collecting information via the new information return, Form 1097-BTC, Bond Tax Credit, to begin addressing the vulnerabilities in this area. Research shows that compliance increases when taxpayers know that the IRS receives data from third parties.

WHAT TIGTA RECOMMENDED

In their response, IRS management agreed to the recommendation and plans to analyze the population of bond tax credits and determine whether changes to the compliance strategy are needed to address and prevent the improper or fraudulent claiming of bond tax credits.

June 26, 2013

MEMORANDUM FOR

OFFICE OF THE DEPUTY COMMISSIONER FOR

SERVICES AND ENFORCEMENT

FROM:

Michael E. McKenney

Acting Deputy Inspector General for Audit

SUBJECT:

Final Audit Report — Vulnerabilities Exist for Improper or

Fraudulent Claims for Bond Tax Credits (Audit # 201210032)

This report presents the results of our review to evaluate the Internal Revenue Service's progress in developing and implementing a process to identify and address bond tax credit noncompliance. This review was conducted as part of the Treasury Inspector General for Tax Administration's Fiscal Year 2013 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

Management's complete response to the draft report is included as Appendix VII.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations).

Table of Contents

Abbreviations

IRS Internal Revenue Service

TCB Tax Credit Bond

TIGTA Treasury Inspector General for Tax Administration

Background

The Taxpayer Relief Act of 19971 introduced a type of tax-preferred bond known as tax credit bonds (TCB). TCBs were first available in 1998 and provide a credit that can be used on the investor's Federal tax return to reduce the tax liability in lieu of receiving interest. Bond tax credits are nonrefundable,2 but credits that are not allowable in the current year can generally be carried forward.3 Although TCBs have not been issued as frequently as tax-exempt bonds, according to the Internal Revenue Service's (IRS) Statistics of Income Division, 378 TCBs totaling $3.7 billion were issued in Calendar Year 2009 and 199 TCBs totaling $1.1 billion were issued in Calendar Year 2010.4 While no additional TCBs have been authorized since February 2009, the tax credits for outstanding TCBs may be claimed on tax returns for more than 20 years.5

Each type of TCB is authorized by Congress and, with the exception of Build America Bonds, is designated for a specific purpose or project. According to a September 2012 Congressional Research Service report,6 issuers have used the proceeds for public school construction and renovation, clean renewable energy projects, refinancing outstanding Government debt in regions affected by natural disasters, conservation of forest land, investment in energy conservation, and economic development purposes. See Appendix IV for a list of TCBs authorized by Congress.

Early issuances of TCBs were privately placed and held as investments primarily by large financial institutions instead of being sold on the open market. However, in May 2008, the Food, Conservation, and Energy Act of 20087 made it possible for bond tax credits to be stripped from the bonds and sold to other investors who could use the credit to reduce their tax liability and allowed Regulated Investment Companies and Real Estate Investment Trusts to pass bond tax credits to investors, such as investors in mutual funds.

Traditionally, taxpayers claimed bond tax credits by entering the amount of the credit, or multiple credits, on Form 8912, Credit to Holders of Tax Credit Bonds. The sum of the credits was then transferred to the taxpayer's income tax return and the Form 8912 was submitted along with the return to the IRS. However, after the credits became more freely transferable, * * * 2 * * *.

Internal Revenue Bulletin Notice 2010-28, issued on March 23, 2010, introduced the proposed third-party information reporting requirements for bond tax credits, including the new Form 1097-BTC, Bond Tax Credit. The Tax Forms and Publications office developed Form 1097-BTC in Calendar Year 2010 for this purpose.8 Beginning the first quarter of Tax Year 2013, bond issuers, entities that sell bond tax credits to other recipients and investors, are required to use the process outlined in Figure 1 to report bond tax credits.

Figure 1: Reporting Bond Tax Credits9

Source: Compilation of information obtained from interviews with IRS management and review of the instructions for Forms 1097-BTC and 8912.

Bondholders that receive a Form 1097-BTC also use this form to report tax credits sold to another recipient. For example, if a Regulated Investment Company receives a Form 1097-BTC from an issuer and transfers it to a mutual fund with 100 holders who are rightful owners of a portion of that credit, the broker would prepare a Form 1097-BTC for each of the 100 mutual fund holders disclosing their portion of the credit and send a copy of the Forms 1097-BTC to the IRS. Similarly, if credits have been stripped from the TCB and resold, the original owner of the credits receives a Form 1097-BTC and must prepare a Form 1097-BTC to provide to the new owner disclosing their portion of the credits and must send a copy to the IRS.

This review was performed at the Wage and Investment Division's Tax Forms and Publications office and the Office of Chief Counsel in Washington, D.C. We also interviewed and received information from the Small Business/Self-Employed Division's Office of Business Modernization and Campus Compliance Services and Examination functions and from the Wage and Investment Division's Reporting Compliance function during the period July 2012 through February 2013. 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. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

* * * 2 * * *.

* * * 2 * * *

* * * 2 * * *. First, the sale of TCBs moved from primarily being privately placed with large financial institutions to being sold on the open market. Additionally, financial institutions purchased bonds to use the credits to reduce their tax liabilities, but with the downturn of the economy, many found they also had reduced taxable income and could not use the bond tax credits to reduce tax liability. Also, mutual funds started investing in TCBs, and the legal changes allowed them to pass the credits on to their investors. Collectively, these changes made the population of owners of these credits more diverse. Because the bond tax credits could be stripped and sold, and because institutional investors, such as mutual funds, could pass the credits on to their investors. * * * 2 * * *.

Because of these weaknesses, the Department of the Treasury expressed concern that multiple taxpayers could improperly or fraudulently claim the same bond tax credit, thereby reducing the amount of taxes paid to the Federal Government. In Calendar Year 2009, the Department of the * * * 2 * * *.

In Calendar Year 2010, the Tax Forms and Publications office developed Form 1097-BTC for this purpose. Beginning the first quarter of Tax Year 2013, Form 1097-BTC, sent from a third party to the IRS, will provide the IRS with information that can be used to verify that a taxpayer is eligible to claim the bond tax credits listed on a tax return if the return is selected for an examination and the bond tax credit amount is identified as a potential examination issue.

Research shows that when taxpayers know that the IRS receives data from third parties, they are more likely to correctly report the income or expenses to the IRS. The IRS estimates that income subject to substantial information reporting, such as pension, dividend, interest, unemployment, and Social Security income, was misreported at an 8 percent rate compared to a 56 percent misreporting rate for income with little or no information reporting, such as sole proprietor, rent, and royalty income.10 Through the use of Form 1097-BTC, the IRS has taken the first step in reducing the risk for improper or fraudulent claims for bond tax credits.

* * * 2 * * *

The IRS Strategic Plan states that, to succeed, the IRS "…must become faster at processing information, identifying areas of noncompliance, and applying the appropriate enforcement tools in a timely manner." * * * 2 * * *

To determine the number and significance of bond tax credits being used to reduce tax liabilities, we quantified the bond tax credits taken on Form 1120 and the Form 1040 series tax returns11 for Tax Years 2010 and 2011. As shown in Figure 2, bond tax credit claims totaled more than $700 million during the two tax years for the types of tax returns we reviewed.12

Figure 2: Bond Tax Credits Claimed on Forms 1120 and Form 1040

Series Tax Returns (Tax Years 2010 and 2011)13

Tax Year	Form 1120 Credits	Number of Returns	Form 1040 Series Credits	Number of Returns
2010	$366,800,000	192	$2,200,000	1,118
2011	$334,900,000	212	$3,100,000	1,153

Source: Treasury Inspector General for Tax Administration (TIGTA)

analysis of Form 1120 data from the Business Return Transaction File

and Form 1040 series data from the Tax Return Database and the

Modernized Tax Return Database.

While the number of tax returns filed claiming bond tax credits is small, the dollar value of bond tax credits claimed per return can be significant and ranged from $1 to approximately $244,000 for individual returns and up to approximately $83 million for corporate returns.

Figure 3 shows that the majority of bond tax credits filed on corporate returns totaled between $10,000 and $1 million each.

Figure 3: Form 1120 Bond Tax Credits

(Tax Years 2010 and 2011)

Source: TIGTA analysis of Form 1120 data from the Business Return Transaction File.

In contrast, Figure 4 shows that individuals filing Form 1040 returns with bond tax credits claimed smaller credits, primarily under $1,000.

Figure 4: Form 1040 Series Bond Tax Credits

(Tax Years 2010 and 2011)

Source: TIGTA analysis of Form 1040 series data from the Tax Return Database and the Modernized Tax Return Database.

* * * 2 * * *. The IRS reported that, of the approximately 148 million individual and corporate income tax returns filed each year, only approximately 1.5 million (1 percent) are examined.14 * * * 2 * * * Moreover, because the amount of some of the claims is large, inappropriate claims for bond tax credits could result in significant loss of revenue for the Federal Government.15

* * * 2 * * *. Bond tax credits can be claimed by different types of taxpayers (individuals, corporations, partnerships, etc.) that for compliance purposes are handled by different IRS operating divisions. In addition, the IRS has not had third-party reporting on Form 1097-BTC in the past.

In April 2012, TIGTA testified that: 1) the IRS does not have reliable third-party data for all categories of taxpayers and for all types of tax returns and 2) the IRS reported that, without these data, it cannot easily detect errors or potential fraud except through expensive and intrusive examinations.16 * * * 2 * * *.

Recommendation

Recommendation 1: * * * 2 * * *.

Management's Response: IRS management agreed with this recommendation and plans to perform an analysis of the population of bond tax credits. The findings will be considered in determining any changes needed to enhance the compliance strategy for detecting improper or fraudulent claims for bond tax credits.

FOOTNOTES

1 Pub. L. No. 105-34, 111 Stat. 788 (codified as amended in scattered sections of the U.S. Code).

2 See Appendix VI for a glossary of terms.

3 Credits from Qualified Tax Credit Bonds and Build America Bonds can be carried forward. Credits for Clean Renewable Energy Bonds, Midwestern Tax Credit Bonds, or Qualified Zone Academy Bonds cannot be carried forward.

4 The latest year for which statistics are available.

5 The maximum term for TCBs is determined using a discount rate equal to the average annual interest rate of tax-exempt obligations having a term of 10 years or more that are issued during the month. For example, as of February 19, 2013, the term on a qualified TCB was listed as 24 years on www.treasurydirect.gov.

6 Congressional Research Service, Tax Credit Bonds: Overview and Analysis (Sept. 2012).

7 Pub. L. No. 110-234, Stat. 1509.

8 During development of Form 1097-BTC and the related process for reporting bond tax credits, Tax Forms and Publications management coordinated with and considered recommendations from the Information Return Program Advisory Committee on the impact of the reporting process for taxpayers and for the financial community. The Information Return Program Advisory Committee was established in 1991 in response to a recommendation in the Conference Report of the Omnibus Budget Reconciliation Act of 1989 (P.L. 101-239). The Committee has worked closely with the IRS to provide recommendations on a wide range of issues intended to improve the information reporting program and achieve fairness to taxpayers. Committee members are drawn from, and represent, a broad sample of the payer community, including major professional and trade associations, colleges and universities, and State taxing agencies.

9 See Appendix V for a list of IRS forms used throughout this report.

10 Government Accountability Office, GAO-12-652T, Opportunities to Improve the Taxpayer Experience and Voluntary Compliance (Apr. 2012).

11 Form 1040, Form 1040A, Form 1040-C, Form 1040-ES, Form 1040NR, Form1040-PR, Form 1040-SS, and Form 1040-V were included in this analysis. Bond tax credits can be claimed on various other tax forms, such as Form 1041, Form 1065, Form 990-T, and Form 1120-C.

12 We limited our analysis to Forms 1120 and the 1040 series. The amounts presented in Figure 2 do not include credits claimed on various other tax returns. Therefore, the total bond tax credits claimed on all returns could be greater than what is presented.

13 Dollar amounts have been rounded to the nearest $100,000.

14 Based on an average of IRS Statistics of Income Division examination coverage data, Table 9a, IRS Data Book, Fiscal Years 2009 through 2011.

15 IRS management did inform us that bond tax credits were examined on less than five individual and corporate tax returns from Fiscal Years 2009 through 2012, but none were found to be fraudulent.

16 Problems at the Internal Revenue Service: Closing the Tax Gap and Preventing Identity Theft, 112th Cong. (April 19, 2012) (statement of The Honorable J. Russell George, TIGTA).

END OF FOOTNOTES

* * * * *

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate the IRS's progress in developing and implementing a process to identify and address bond tax credit noncompliance. To accomplish this objective, we:

I. Determined IRS requirements for issuer and bondholder reporting of bond tax credits.

A. Obtained and reviewed documentation of the Department of the Treasury's proposal for the new bond tax credit information reporting requirements.

B. Interviewed IRS management and reviewed available documentation to identify issuer requirements for reporting bond tax credits to bondholders and the IRS for bond issuers and pass-through entities.

C. Interviewed IRS management and reviewed available documentation to identify the requirements for bondholders reporting bond tax credits to the IRS.

D. Interviewed IRS management and reviewed available documentation to identify the process for tracking credits that have been stripped from the bonds and sold separately.

II. Evaluated IRS management's plans to identify and address improper or fraudulent claims for bond tax credits on tax returns and determined whether these plans met the Department of the Treasury's intent and purpose for the program.

III. Determined the number and amount of bond tax credits claimed in Tax Years[1] 2010 and 2011.

A. Interviewed IRS management to determine if the total amount of bond tax credits claimed on the Form 1040[2] series of returns and Forms 1120 in Tax Years 2010 and 2011 has been quantified to determine the risk of noncompliance.

B. Quantified the total bond tax credits taken on the Form 1040 series of returns and Forms 1120 in Tax Years 2010 and 2011 by analyzing bond tax credits from the Tax Return Database, the Modernized Tax Return Database, and the Business Return Transaction File that were $1 or greater but limited to the amount of total tax on the taxpayers' Federal tax return. Bond tax credits are not separately listed on Form 1040; therefore, we quantified the allowable credit from Form 8912 attached to the Form 1040 series returns. Validation testing of both data sets was completed by reviewing the data for reasonableness and duplicates. Form 1120 data were additionally validated by comparing data from the Business Return Transaction File to the Business Master File data. These data were determined to be reliable for the purposes of this report.

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 the following internal controls were relevant to our audit objective: the IRS's controls for reviewing tax returns claiming bond tax credits and Forms 1097-BTC to determine compliance. We evaluated these controls by interviewing IRS and Department of the Treasury officials, reviewing applicable documentation, and quantifying bond tax credit claims.

FOOTNOTES TO APPENDIX II

1 See Appendix VI for a glossary of terms.

2 See Appendix V for a list of IRS forms used throughout this report.

END OF FOOTNOTES TO APPENDIX II

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Appendix II

Major Contributors to This Report

Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations)

Troy D. Paterson, Director

Gerald T. Hawkins, Audit Manager

Melinda H. Dowdy, Lead Auditor

Julia Moore, Senior Auditor

David M. Bueter, Auditor

Joseph C. Butler, Information Technology Specialist

Brian W. Hattery, Information Technology Specialist

* * * * *

Appendix III

Report Distribution List

Principal Deputy Commissioner

Office of the Commissioner — Attn: Chief of Staff C

Commissioner, Small Business/Self-Employed Division SE:S

Acting Commissioner, Tax Exempt and Government Entities Division SE:T

Commissioner, Wage and Investment Division SE:W

Director, Office of Legislative Affairs CL:LA

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 Liaisons:

Director, CSO Headquarters Operations, Small Business/Self-Employed Division SE:S:CSO:SL:HQ

Director, Communications and Liaison, Tax Exempt and Government Entities Division SE:T:CL

Director, Compliance, Wage and Investment Division SE:W:CP

* * * * *

Appendix IV

Tax Credit Bonds Authorized by Congress

The following table lists all TCBs authorized by Congress as of September 2012. Although the authorized issuance amount is listed in this table, information is not available to determine the actual amounts issued for each of these bonds. The IRS Statistics of Income Division has issuance data available from Fiscal Years1 2007 to 2010; however, data were not available prior to Fiscal Year 2007 due to the lack of information reporting requirements (Form 8038, Information Return for Tax-Exempt Private Activity Bond Issues) and low issuance volume.

Tax Credit Bond	Authorized Issuance Amount	Expired After	Tax Credit Amount	Purpose of Bond
Energy				
Clean Renewable Energy Bonds I	$1.2 billion	2009	100 percent	These bonds were issued to finance renewable energy facilities, such as wind, geothermal, landfill gas, or

solar energy, and

must be owned by a

public power

provider, State or

local government

body, or

cooperative

electric company.

New Clean $800 million 2010 70 percent These bonds were

Renewable issued to finance

Energy Bonds I renewable energy

facilities, such

New Clean $1.6 billion 2010 70 percent as wind,

Renewable geothermal,

Energy Bonds II landfill gas, or

solar energy. Not

more than one-

third of the new

bonds could be

allocated to

public power

providers,

government bodies,

or cooperative

electric

companies.

Qualified $800 million No expira- 70 percent These bonds are

Energy tion issued to finance

Conservation energy

Bonds I conservation

efforts such as

Qualified $2.4 billion No expira- 70 percent reducing energy

Energy tion consumption in

Conservation public buildings

Bonds II and mass

transportation or

implementing green

community

programs.

General Government, Economic Development, and Forest Conservation

---

Qualified $500 million 2010 100 percent These bonds were

Forestry issued for a

Conservation qualified forestry

Bonds conservation

purpose for the

purchase of at

least 40,000 acres

of land subject to

a native fish

habitat

conservation plan

approved by the
U.S. Fish and
Wildlife Service.
The land must be
adjacent to the
U.S. Forest
Service Land and
at least half of
the land must be
transferred to the
U.S. Forest
Service at no net
cost to the United
States.

Build America No limit 2010 35 percent2 There were two
Bonds types of Build
America Bonds: tax
credit and direct
payment.
o Build America
Tax Credit bonds
were issued to
finance any
governmental
purpose for
which tax-exempt
governmental
bonds (excluding

				private activity bonds) can be issued. o Build America Direct Payment bonds were more limited in their use than the tax credit bond option.
Midwest Disaster Bonds	$450 million	2009	100 percent	These bonds were designated for areas affected by the severe storms and flooding in the Midwest that occurred in 2008. These bonds could only be issued in Calendar Year 2009 and had a maximum term of two years.
Recovery Zone Economic Development Bonds	$10 billion	2010	45 percent3	These bonds were issued to finance economic development and

activity in areas designated as recovery or empowerment zones.

School Construction

Qualified Zone Academy Bonds I	$4.4 billion	2008	100 percent	These bonds were issued to finance public school programs designed
Qualified Zone Academy Bonds II	$3.2 billion	2011	100 percent	in cooperation with business to enhance the academic curriculum, increase graduation and employment rates, and prepare students for college and the workforce.
Qualified School Construction	$22.4 billion	2010	100 percent	These bonds were issued to finance the construction,

Bonds repair of public school facilities or to acquire the land for such a facility.	rehabilitation, or

Source: Congressional Research Service, Tax Credit Bonds: Overview and Analysis (Sept. 2012).

FOOTNOTES TO APPENDIX IV

1 See Appendix VI for a glossary of terms.

2 The underlying interest rate is market determined, not established by the Secretary of the Treasury as with the other TCBs. The credit is 35 percent of the market-determined interest rate.

3 The credit amount is determined in the same manner as Build America Bonds.

END OF FOOTNOTES TO APPENDIX IV

* * * * *

Appendix V

Internal Revenue Service Forms Used in This Report

Term	Definition
Form 990-T	Exempt Organization Business Income Tax Return
Form 1040	U.S. Individual Income Tax Return
Form 1040A	U.S. Individual Income Tax Return
Form 1040-C	U.S. Departing Alien Income Tax Return
Form 1040-ES	Estimated Tax for Individuals
Form 1040NR	U.S. Nonresident Alien Income Tax Return

Form 1040-PR U.S. Self-Employment Tax Return-Puerto Rico

Form 1040-SS U.S. Self-Employment Tax Return (Including the

Additional Child Tax Credit for Bona Fide

Residents of Puerto Rico)

Form 1040-V Payment Voucher

Form 1041 U.S. Income Tax Return for Estates and Trusts

Form 1065 U.S. Return of Partnership Income

Form 1097-BTC Bond Tax Credit

Form 1120 U.S. Corporation Income Tax Return

Form 1120-C U.S. Income Tax Return for Cooperative

Associations

Form 8038 Information Return for Tax-Exempt Private

Activity Bond Issues

Form 8912 Credit to Holders of Tax Credit Bonds

* * * * *

Appendix VI

Glossary of Terms

Automated Underreporter

The Automated Underreporter function matches information return data received from third parties with the income and deductions reported on tax returns and informs taxpayers when discrepancies are found.

Business Master File

The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

Business Return Transaction File

A computer file of transcribed line items on all business returns and their accompanying forms and schedules.

Calendar Year

The 12-consecutive-month period ending on December 31.

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.

Modernized Tax Return Database

The legal repository for original electronically filed tax returns received by the IRS through the Modernized e-File system.

Nonrefundable Credit

A nonrefundable credit can only reduce the tax liability to zero, whereas a refundable credit can reduce a taxpayer's liability to zero and any credit amount over the tax liability can be refunded to the taxpayer.

Private Placement

A private placement is a nonpublic offering of securities, mostly to a small number of chosen investors.

Strippable Credits

The credits on TCBs are "strippable," meaning the credits can be separated from the underlying bond.

Tax-Exempt Bond

A municipal bond with interest payments that are not subject to Federal income tax.

Tax Return Database

The Tax Return Database contains tax return source information for all electronically filed tax returns.

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 VII

Management's Response to the Draft Report

May 29, 2013

MEMORANDUM FOR

MICHAEL E. MCKENNEY

ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Peggy Bogadi

Commissioner, Wage and Investment Division

SUBJECT:

Draft Audit Report — Vulnerabilities Exist for Improper

or Fraudulent Claims for Bond Tax Credits (Audit # 201210032)

Thank you for the opportunity to review the subject draft report. As noted in the report, legislative changes and the economic downturn have contributed to the diversification of the population of taxpayers claiming benefits associated with Bond Tax credit (BTC). Consequently, those changes have commensurately increased the complexity associated with the administration of BTC attributes. * * * 2 * * *. We will evaluate the compliance risks associated with BTC and determine strategies that may be implemented to mitigate those risks.

Attached are our comments to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Steve Klingel, Director, Reporting Compliance, Wage and Investment Division, at (404) 338-9085.

Attachment

* * * * *

Attachment

RECOMMENDATION 1

* * * 2 * * *.

CORRECTIVE ACTION 1

An analysis of the population of bond tax credits will be completed and the findings will be considered in determining any changes needed to enhance our compliance strategy for detecting improper or fraudulent claims for bond tax credits.

IMPLEMENTATION DATE:

Bond Tax Credit Analysis — December 15, 2013

Evaluation of Compliance Strategy — June 15, 2015

RESPONSIBLE OFFICIALS

Bond Tax Credit Analysis —

Director, Reporting Compliance, Wage and Investment Division

Evaluation of Compliance Strategy —

Director, Examination Policy, Small Business/Self-Employed Division,

and

Director, Planning, Analysis, Inventory and Research, Large Business

and International Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.