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IRS to Scrutinize Tax Credit Refunds

The IRS says it will give greater scrutiny to the Earned Income Tax credit for the coming tax year 2012. This comes after a government watchdog questioned the agency on billions of dollars worth of credit it gave out this year. In October, Congress approved an increase of the fine on paid tax preparers for not verifying the eligibility of those who apply for the Earned Income Tax credit from \$100 previously to \$500. The Earned Income Tax credit is the largest form of credit paid out by the IRS each year, amounting to more than \$55.1 billion in 2009, out of which \$11 billion was likely paid out wrongly, according to IRS estimates.

The Treasury Inspector General for Tax Administration (TIGTA) J. Russell George wrote a stinging report in which he faulted the IRS for making potential improper payments involving two other refundable credit programs, one for higher education and the other for families with children in connection with the Earned Income tax credit. The report indicated that more than \$18 billion of the \$101 billion paid out under the 3 credits could have been done improperly.

The inherent danger in awarding the Earned Income tax credit is that as a refundable credit, it is can be paid out in cash in excess of the tax owed, instead of offsetting part of the tax liability. As such, the Earned Income tax credit is always subjected to abuse.

Cindy Hockenberry, research supervisor for the National Association of Tax Professionals said, "The IRS is really stepping up enforcement." Initially, the IRS will focus on the earned income credit, but "they're going to be branching out into other areas", according to Hockenberry. The National Association of Tax Professionals represents more than 21,000 Tax preparers, Attorneys, Accountants and enrolled agents who work independently or for tax preparation companies like H&R Block.

The administration of the Earned Income tax credit has gained the attention of the politicians, in particular those from the GOP who have been rather vocal in demanding greater policing of how the credit is awarded. As a result, IRS deputy commissioner for services and enforcement, Steve Miller told a House Ways and Means subcommittee in May, "We must balance the mandate to get refunds to those eligible as quickly as possible with ensuring that the money goes only to individuals who are eligible to receive it."

The Earned income tax credit was passed by Congress in 1975 and is meant to offset the burden of Social Security taxes for the poor. It has been expanded several times as an incentive to work being supported by both sides of the political divide.

In September, the TIGTA issued a report stating its finding that in 2009 about \$4.2 billion, or 15% of \$28.3 billion in additional child tax credits was paid to workers working illegally in the US. As a result, legislation is now being drafted to narrow the eligibility to obtain a refundable child tax credit.