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IRS faulted for weak enforcement on energy tax credit

By Charles S. Clark | *cclark@govexec.com* | May 19, 2011

The Internal Revenue Service continues to have trouble weeding out fraudulent use of tax credits designed to encourage homeowners to purchase modern energy-saving doors and windows, according to a report released Wednesday by the Treasury Inspector General for Tax Administration.

Reviews of a sampling of 2009 tax returns claiming the residential energy credits found some 30 percent were from individuals who do not own a home. TIGTA auditors uncovered 262 prisoners who claimed the credit as well as 100 individuals under age 18 (26 of whom were only 14 and one of whom was 3). They identified 171 individuals whose claims exceeded the maximum allowable amount of $1,500.

The issue is politically sensitive because the tax credits were expanded under the Recovery Act, which requires "a high level of scrutiny, and taxpayer dollars spent on economic recovery must be subject to unprecedented levels of transparency and accountability," said the report, dated April 19. More than 6.8 million individuals claimed more than $5.8 billion in residential energy credits in 2009.

"I am troubled by the IRS' continued failure to develop appropriate verification methods for distributing Recovery Act funds," said J. Russell George, the Treasury Inspector General for Tax Administration.

Homeowners who install energy-efficient products are not required to provide third-party documentation of their purchase, but the IRS does have data available on taxpayers' ages and on whether they are incarcerated.

In response to a draft of the report, IRS agreed for the most part to implement TIGTA's recommendations to revise the form used to file for the credit to demand more verifiable detail on eligibility, examine the returns of 362 individuals who may be incarcerated or too young to own a home, and revise processes to identify and review returns from such individuals.

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"This report is about the need to modernize IRS systems, and it's not about energy investments, which help to reduce wasted energy," said Philip Henderson, senior financial policy specialist at the Natural Resources Defense Council. "If the IRS can't even determine that a prisoner is not a homeowner, they will have problems enforcing every area of the Tax Code."

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