Affordable Care Act: Interim Results of the Internal Revenue Service Verification of Premium Tax Credit Claims

May 29, 2015

Reference Number: 2015-43-057

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.

Redaction Legend:
2 = Risk Circumvention of Agency Regulation or Statute

AFFORDABLE CARE ACT: INTERIM RESULTS OF THE INTERNAL REVENUE SERVICE VERIFICATION OF PREMIUM TAX CREDIT CLAIMS

Highlights

Final Report issued on May 29, 2015

Highlights of Reference Number: 2015-43-057 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Affordable Care Act created the refundable Premium Tax Credit (PTC) to assist eligible taxpayers with paying their health insurance premiums. Individuals may elect to have the PTC paid directly to their health insurance provider as partial payment for their monthly premiums (referred to as the Advance Premium Tax Credit (APTC)) or receive the PTC as a lump sum credit on their annual Federal income tax return. According to the IRS, almost $11 billion in APTCs was paid to insurers in Fiscal Year 2014.

Beginning in January 2015, individuals who received an APTC are required to reconcile the amount paid on their behalf to the allowable amount of their PTC when they file their Tax Year 2014 return.

WHY TIGTA DID THE AUDIT

The Consolidated and Further Continuing Appropriations Act of 2015 requires a report no later than June 1, 2015, on the IRS's reconciliation of APTCs paid to taxpayers and the Department of Health and Human Services use of IRS information to reduce fraud and overpayments. The objective of this review was to provide selected information related to the processing of PTC claims during the 2015 Filing Season. TIGTA plans to issue the final results of its analysis later in Calendar Year 2015.

WHAT TIGTA FOUND

As of March 26, 2015, the IRS processed nearly 1.4 million tax returns that reported approximately $4.4 billion in PTCs (which were either received in advance or claimed at the time of filing). Taxpayers claimed more than $240 million in additional PTCs and reported receiving more than $572 million in excess APTC payments.

The Affordable Care Act requires Marketplaces (also referred to as Exchanges) to provide the IRS with information regarding individuals enrolled in an Exchange on a monthly basis (referred to as Exchange Periodic Data). Exchanges are where individuals can purchase insurance and receive assistance with paying their premiums. During the Calendar Year 2014 health insurance enrollment period, the District of Columbia and 14 States operated their own Exchanges, while the remaining 36 States partnered with the Federal Exchange.

The IRS anticipated that the first Exchange Periodic Data submission, covering the period January through May 2014, would be received in June 2014. However, the IRS did not receive the required Exchange Periodic Data from all of the Exchanges as of the start of the filing season (January 20, 2015). For example, the IRS did not receive Exchange Periodic Data for approximately 1.7 million (40 percent) of the approximately 4.2 million Federal Exchange enrollment records and did not receive the Exchange Periodic Data from six of the 15 State Exchanges.

Because of incomplete and unreported data from the Exchanges, the IRS is unable to ensure that taxpayers claiming the PTC purchased insurance through an Exchange and properly reconciled APTCs received. However, the IRS has developed processes to identify erroneous PTC claims. Our review of these processes identified that 79 of the 80 reject code conditions and 16 of the 20 PTC error codes were working as intended. Computer programming errors resulted in the reject and PTC error codes not always identifying tax returns with the particular error condition. The IRS plans to make programming corrections.

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

May 29, 2015

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Affordable Care Act: Interim Results of the Internal Revenue Service Verification of Premium Tax Credit Claims (Audit # 201540317.01)

This report presents the results of our review to provide selected information related to the Internal Revenue Service's (IRS) processing of Premium Tax Credit claims during the 2015 Filing Season. This audit is included in our Fiscal Year 2015 Annual Audit Plan and addresses the major management challenge of Implementing the Affordable Care Act and Other Tax Law Changes. We will issue a report with our final assessment of the IRS's verification of Premium Tax Credit claims later this year.

Management's complete response to the draft report is included in Appendix IV.

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

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Abbreviations

ACA	Affordable Care Act
APTC	Advance Premium Tax Credit
CMS	Centers for Medicare and Medicaid Services
e-file(d), e-filing	Electronically file(d); electronic filing
EPD	Exchange Periodic Data
FPL	Federal Poverty Level
HHS	Department of Health and Human Services
IRS	Internal Revenue Service
OIG	Office of Inspector General
PTC	Premium Tax Credit
QHP	Qualified Health Plan
SLCSP	Second Lowest Cost Silver Plan
SSA	Social Security Administration

Background

The Affordable Care Act (ACA)[1] created the Health Insurance Marketplace, also known as the Exchange. The Exchange is where taxpayers find information about health insurance options, purchase qualified health plans, and, if eligible, obtain help paying premiums and out-of-pocket costs. The ACA also created a new refundable tax credit,[2] the Premium Tax Credit (PTC), to assist eligible taxpayers with paying their health insurance premiums. Because the PTC is a refundable credit, individuals who have little or no income tax liability can still benefit. Figure 1 lists eligibility requirements to purchase insurance through an Exchange and qualify for the PTC.

Figure 1: Eligibility Requirements to Purchase Insurance Through an Exchange and Qualify for the PTC

Exchange Eligibility Requirements	PTC Eligibility Requirements
Individuals must: • Live in the United States. • Be a U.S. Citizen or national or be lawfully present. • Not be currently incarcerated.	**Individuals must:** • Buy health insurance through the Exchange. • Be ineligible for Minimum Essential Coverage[3] through an employer or government plan. • Be within certain income limits.[4] • File a joint tax return, if married. • Not be claimed as a dependent on another tax return.

Source: IRS.gov and Healthcare.gov.

[1] Patient Protection and Affordable Care Act, 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.

[2] Refundable tax credits can be used to reduce a taxpayer's tax liability to zero. Any excess of the credit beyond the tax liability can be refunded to the taxpayer.

[3] Minimum Essential Coverage is health insurance coverage that contains essential health benefits including emergency services, maternity and newborn care, and preventive and wellness services. Minimum Essential Coverage also includes doctor visits, hospitalization, mental health services, and prescription drugs.

[4] The taxpayer's income must generally be at least 100 percent but not more than 400 percent of the Federal poverty level (FPL) for the taxpayer's family size. For example, in Calendar Year 2013, this equated to $23,550 to $94,200 for a family of four. The FPL is a measure of income level issued annually by the Department of Health and Human Services and is used to determine eligibility for certain programs and benefits. More information on the FPL can be found at https://www.healthcare.gov/glossary/federal-poverty-level-FPL/.

When enrolling in a Qualified Health Plan (QHP)[5] through the Exchange, eligible taxpayers can choose to have some or all of the PTC sent directly to their health insurance provider as partial payment for their monthly premiums (hereafter referred to as the Advance Premium Tax Credit (APTC)) or wait and receive the PTC as a lump sum credit on their tax return.

Health Insurance Exchange eligibility and enrollment process

The Centers for Medicare & Medicaid Services (CMS) operates the Federally Facilitated Exchange and works with States to establish State-Based and State Partnership Exchanges, including overseeing their operations. During the Calendar Year 2014 health insurance enrollment period, the District of Columbia and 14 States operated their own Exchanges, while the remaining 36 States partnered with the Federally Facilitated Exchange. Figure 2 shows the Federally Facilitated and State-Based Exchanges during Calendar Year 2014.

Figure 2: Federally Facilitated and State-Based Exchanges for Calendar Year 2014

Federally Facilitated Exchange[6]			State-Based Exchanges
Alabama	Louisiana	Ohio	California
Alaska	Maine	Oklahoma	Colorado
Arizona	Michigan	Pennsylvania	Connecticut
Arkansas	Mississippi	South Carolina	District of Columbia
Delaware	Missouri	South Dakota	Hawaii
Florida	Montana	Tennessee	Kentucky
Georgia	Nebraska	Texas	Maryland
Idaho	New Hampshire	Utah	Massachusetts
Illinois	New Jersey	Virginia	Minnesota
Indiana	New Mexico	West Virginia	Nevada
Iowa	North Carolina	Wisconsin	New York
Kansas	North Dakota	Wyoming	Oregon
			Rhode Island
			Vermont
			Washington

Source: CMS as of September 30, 2014.

[5] A Qualified Health Plan is an insurance plan that is certified by the Health Insurance Exchange that provides essential health benefits, follows established limits on cost-sharing (like deductibles, copayments, and out-of-pocket maximum amounts), and meets other requirements.

[6] Idaho and New Mexico were Supported State-Based Exchanges in 2014, and the eligibility and enrollment process was completed by the Federally Facilitated Exchange.

The Exchanges have sole responsibility for determining if an individual is eligible to purchase health insurance as well as determining the amount of the APTC an individual is eligible to receive. The Exchanges use a combination of Federal and State data sources to determine eligibility, including information provided by the Department of Homeland Security, the Internal Revenue Service (IRS), and the Social Security Administration (SSA). For example, the IRS provides tax return information for applicants and their family members. The Exchange can use the tax information in conjunction with other income data to verify an individual's estimated income for the next calendar year. The Exchange uses this estimated income and family status to determine if an individual is eligible to receive an APTC.

Once the Exchange determines the amount of the APTC an individual is entitled to receive, an individual then elects the actual amount to be sent to the insurer on a monthly basis. Individuals can elect to send all, a portion, or none of the APTC to which they are entitled. Once an individual selects insurance coverage and determines the amount of the APTC to be sent to the insurer, the insurer submits the information to the CMS, which then sends a request to the U.S. Department of the Treasury's Bureau of the Fiscal Service to issue monthly APTC payments to the individual's insurance provider. According to the IRS, total APTC disbursements for Fiscal Year[7] 2014 were nearly $11 billion ($15.5 billion in Calendar Year 2014).

Reconciliation of APTC amounts received and PTC claims

The IRS is responsible for determining the amount of the PTC a taxpayer is entitled to receive based on the income and family size reported on his or her tax return. Beginning in January 2015, taxpayers who purchased insurance through an Exchange during the Calendar Year 2014 health insurance enrollment period are required to file a tax return and attach Form 8962, *Premium Tax Credit (PTC)*, to claim the PTC and reconcile any APTC payments that were made to an insurer on their behalf. This reconciliation is necessary because the actual income and family size reported on their tax return can be different from the estimates used by the Exchange to determine the allowable APTC.

Taxpayers who are entitled to more PTC than was received in advance receive the additional credit as a refund on their tax returns. However, taxpayers who received more PTC in advanced payments than they were entitled to must repay the excess when filing their tax return. The amount required to be repaid is subject to certain limitations because the ACA limits the amount of tax that individuals with income between 100 percent and 400 percent of the FPL will have to repay. However, individuals whose actual income exceeds 400 percent of the FPL are not eligible to receive the PTC and are required to repay the full amount of any APTC they received. Figure 3 lists the repayment limits for individuals with household income less than 400 percent of the FPL.

[7] Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

Figure 3: Limit on Repayment – Individuals Receiving Excess APTC

Household Income Percentage of FPL	Repayment Limit – Filing Status Single	Repayment Limit – Filing Status Other Than Single
• Less Than 200%	$300	$600
• 200% but Less Than 300%	$750	$1,500
• 300% but Less Than 400%	$1,250	$2,500
• 400% or More	No Limit	No Limit

Source: Treas. Reg. § 1.36B-4.

The ACA requires Exchanges to provide the IRS with enrollment data

The ACA requires Exchanges to provide the IRS with information regarding individuals who are enrolled by the Exchange on a monthly basis. These data are referred to as Exchange Periodic Data (EPD). In addition, the Exchange is also required to provide an annual summary to both the IRS and the individual detailing specific information relating to the individual's enrollment. This is referred to as Form 1095-A, *Health Insurance Marketplace Statement*. The data provided by Exchanges monthly and annually include:

- Individuals and families enrolled in a QHP through the Exchange.
- Coverage start and end date of the QHP.
- The monthly premium amount of the QHP.
- Amount of the APTCs paid for coverage under the QHP.
- Employer-offered Minimum Essential Coverage.

The Consolidated and Further Continuing Appropriations Act of 2015 established the Inspector General reporting requirement

The Explanatory Statement to the Consolidated and Further Continuing Appropriations Act of 2015[8] requests that no later than June 1, 2015, the Department of Health and Human Services (HHS) Office of Inspector General (OIG), in consultation with the Treasury Inspector General for Tax Administration, submit a report to Congress that assesses the IRS procedures to reconcile APTC amounts paid to individual taxpayers and how the HHS uses IRS information to reduce fraud and overpayments. This report is intended to satisfy this joint reporting request.

[8] Pub. L. No. 113-235 (2014).

This report provides selected information related to the IRS's processing of PTC claims during the 2015 Filing Season.[9] Interim results are being presented as of several dates between January 20 and April 15, 2015, depending on when the data were available. We will issue a report with our final assessment of the IRS's verification of PTC claims later this year. Our final report will detail results of our assessment of whether APTC payments are properly reconciled and whether the amount of PTCs computed by the IRS is correct. In addition, we will provide results regarding taxpayers who received APTCs but did not file a required tax return and the effect of incorrectly issued Forms 1095-A on taxpayers and tax administration.

This review was performed with information obtained from the IRS Headquarters in Washington, D.C., the Affordable Care Act Office and the Affordable Care Act Program Management Office within the IRS Information Technology organization in New Carrollton, Maryland, and the IRS Wage and Investment Division in Atlanta, Georgia. We also obtained information from the HHS OIG, the HHS CMS, and the California Exchange. This audit was conducted during the period December 2014 through April 2015. 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.

[9] The period from January through mid-April when most individual income tax returns are filed.

Results of Review

Status of Exchange Data Reporting

Because of incomplete or unreported data from the Exchanges, the IRS is unable to ensure that:

- Taxpayers claiming the PTC met the key eligibility requirement of purchasing insurance through an Exchange.
- Taxpayers who received the APTC properly reconcile the APTC on their tax return.

Internal Revenue Code Section 36B(f)(3) requires the Federal Exchange and State Exchanges to report EPD information to the IRS. Treasury Regulation § 1.36B–5, *Information Reporting by Exchanges*, issued May 7, 2014, requires this information to be reported both monthly (by the 15th of each month) as well as annually (by the 31st of January). The IRS anticipated the first EPD submission would be in June 2014 and would cover the period January 2014 through May 2014. However, Exchanges did not begin to provide data to the IRS until October 2014.

The IRS received some data for individuals living in all 36 states participating in the Federal Exchange as of January 20, 2015. However, the CMS notified the IRS that the EPD it sent did not include 1.7 million of the 4.2 million Federal Exchange enrollment records. In addition, the IRS did not have data for individuals in six of the 15 State Exchanges as of January 20, 2015.[10] For 10 of the States, although the IRS received the EPD that would cover the full year, it was not received in time for the IRS to validate the data prior to the start of the filing season. Before the IRS can use EPD records received to verify tax returns, the data need to be validated and assessed for reliability. Figure 4 provides a summary of the IRS's receipt and use of EPD in verifying tax returns as of January 20, 2015.

[10] The fifteen State Exchanges include the District of Columbia. Two of the six State Exchanges submitted no EPD. Four of the six State Exchanges attempted to submit EPD, but the IRS rejected all or part of the data.

Figure 4: IRS Receipt and Use of Calendar Year 2014 EPD as of January 20, 2015

2014 EPD Submissions	States EPD Received	States EPD Used
As of January 20, 2015		
Full Year Data (January – December 2014)	10	0
Part Year Data (January – November 2014)	43[11]	40
No Data[12]	6	N/A

Source: IRS EPD Submissions Reports and EPD load information.

In addition, although the Exchanges continued to submit additional EPD after the start of the filing season, the IRS was unable to use the majority of this data to verify most PTC claims filed. IRS management indicated that the computer application the IRS uses to load the EPD into its tax return processing systems was not functioning properly. As a result, the IRS was unable to load most of the additional EPD received after the start of the filing season until March 29, 2015. This included the additional EPD received for all 36 States in the Federal Exchange and 12 of the 15 State Exchanges. As of April 15, 2015, the IRS still had not received EPD from two State Exchanges.

The IRS did not receive Form 1095-A from all Exchanges by the required due date

Exchanges are required to file Calendar Year 2014 Forms 1095-A with the IRS no later than January 31, 2015. As of January 31, 2015, the IRS received usable Forms 1095-A data from 40 of the 50 States and the District of Columbia. The IRS's inability to use some of the Form 1095-A data received resulted from the records not meeting the required data format. The Exchanges have continued to correct the format of their Form 1095-A filings and continue to provide additional Forms 1095-A to the IRS. As of April 15, 2015, the IRS has accepted Forms 1095-A from 47 of the 50 States and the District of Columbia.

Exchanges issued incorrect Forms 1095-A, which can affect the accuracy of taxpayer PTC claims and reconciliation of APTC payments

On February 20, 2015, the CMS reported that it issued incorrect Forms 1095-A to approximately 800,000 individuals who participated in the Federal Exchange. According to the CMS, a computer programming error caused the second lowest cost silver plan (SLCSP)[13] premium

[11] Eight of the 43 States also submitted full year data prior to January 20, 2015.
[12] Includes States for which no EPD was received or the IRS rejected all or part of the EPD submitted.
[13] The SLCSP refers to the level of coverage provided by a health plan. Health plans offered by the Exchange are categorized as Platinum, Gold, Silver, Bronze, or Catastrophic depending on the share of costs the insurance provider covers.

amount for Calendar Year 2015 to be shown instead of Calendar Year 2014 on some Forms 1095-A issued by the Federal Exchange. Taxpayers use the SLCSP premium amount to compute their allowable PTC.

CMS management indicated that the CMS expected to send corrected Forms 1095-A to affected taxpayers by the end of March. CMS management also indicated that affected taxpayers were notified of the error, and those who had not yet filed their tax return were asked to wait to file until they received a corrected Form 1095-A. The Department of the Treasury (Treasury) estimated that 50,000 of these taxpayers had already filed their tax return as of February 2015.

In addition, on February 13, 2015, the California State Exchange announced that approximately 100,000 of the Forms 1095-A it issued contained errors in coverage dates, enrolled individuals, or policy changes. Representatives from the Exchange indicated that these errors resulted from discrepancies between the Exchange's records and the information used by the insurance carriers. Representatives also estimate that approximately 50,000 individuals who should have received a Form 1095-A did not receive one as required.

Exchange representatives indicated that corrected Forms 1095-A were issued in late February to replace the 100,000 incorrect forms. In addition, the Exchange was working to issue Forms 1095-A by the end of March to the approximately 50,000 individuals who did not receive one.

On February 24, 2015, Treasury announced that taxpayers enrolled in the Federal Exchange who have already filed their tax return do not need to file an amended tax return to correct errors in their PTC claim resulting from an incorrect Form 1095-A. Treasury stated that the IRS would not pursue action to recoup excess PTC these taxpayers may have received as a result of the error. On March 20, 2015, Treasury expanded relief from filing an amended tax return to all taxpayers who received and filed a tax return based on an incorrect Form 1095-A.

We are continuing to evaluate the impact of inaccurate Forms 1095-A data and plan to issue the results of our assessment later this calendar year.

Processing of Premium Tax Credit Claims

As of March 26, 2015, the IRS processed nearly 1.4 million tax returns that reported approximately $4.4 billion in PTCs that were either received in advance or claimed at the time of filing. Figure 5 presents PTC statistics as of March 26, 2015.

Figure 5: Premium Tax Credit Statistics (as of March 26, 2015)

Cumulative Premium Tax Credit Data	APTC/PTC Claimed
Total Income Tax Returns	
Total Tax Returns	1,376,608
Total Dollars	$4.4 billion
Total APTC Amount	*$4.1 billion*
Total PTC Claimed at Filing in Excess of APTC[14]	*$240.6* million
Tax Returns For Which Allowable PTC Equals APTC Received	
Total Tax Returns	180,074
Total Dollars[15]	$377.5 million
Tax Returns With an Additional PTC – (Taxpayer is entitled to more PTC than what was received in APTCs)	
Total Tax Returns	542,920
Total Dollars	$2.1 billion
Total APTC Amount	*$1.9* billion
Total PTC Claimed at Filing in Excess of APTC	*$240.6* million
Tax Returns With Excess APTC Payments (Taxpayer has to repay APTC)	
Total Tax Returns	653,614
Total Dollars	$1.8 billion
Total APTC Reported in excess of PTC	$572.8 million
Total APTC Above the Repayment Limit (not subject to repayment)	*$235.5 million*
Total APTC Below the Repayment Limit (must be repaid)	*$337.3 million*

Source: Our analysis of individual tax returns processed as of March 26, 2015. Totals shown are rounded.

In an effort to identify erroneous PTC claims, the IRS developed the following processes:

- ***Preprocessing error screening.*** Prior to the IRS accepting an electronically filed (e-filed) tax return with a PTC claim, the tax return is screened through 80 PTC reject conditions. For example, one reject condition ensures that a Form 8962 is included with

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[14] Total PTC claimed at filing includes amounts used to offset income tax liability as well as amounts refunded to taxpayers.
[15] APTC payments made to insurance issuers for the taxpayer for which the APTC payments equal allowable PTC.

the tax return when the PTC is claimed. Another identifies a discrepancy between the number of exemptions reported on Form 1040, *U.S. Individual Income Tax Return*, and Form 8962. If a reject condition is identified, the tax return will be rejected back to the taxpayer for correction.

Similar to the verifications performed for e-filed tax returns, paper-filed tax returns are perfected by tax examiners in the IRS's Code and Edit function before the tax return information is entered into the IRS computer system. For example, employees verify whether a Form 8962 is attached to the tax return. Once perfected by the Code and Edit function, the information from the paper-filed tax return along with the perfected return coding is entered into IRS computers.

- ***Real-time error identification.*** Once a tax return with a PTC claim is accepted for processing (e-filed and paper), the tax return is screened for 20 additional error conditions specific to the PTC:
    - Ten error conditions identify PTC mathematical errors on the tax return or Form 8962. Using its math error authority,[16] the IRS will correct the math error and notify the taxpayer of any resulting change in his or her PTC claim.
    - Ten error conditions identify discrepancies between PTC information reported on Form 1040 and Form 8962 as well as discrepancies between the PTC tax return information and the EPD IRS receives from the Exchanges. Tax returns with these conditions are sent to the IRS Error Resolution function for review. Depending on the dollar amount of the discrepancy, the IRS will correspond with the taxpayer for additional information to support his or her PTC claim or process the tax return and identify it for evaluation for post-processing compliance activity.

Evaluation of preprocessing error screening

Our analysis of tax returns processed as of March 26, 2015, verified that tax examiners were coding paper-filed tax returns with PTC error conditions. In addition, the IRS correctly accepted only those e-filed tax returns that did not contain 79 of the 80 reject conditions (codes). As of March 26, 2015, the IRS rejected more than 200,000 tax returns that included 453,163 PTC reject conditions.[17] For the remaining reject code, we found that tax returns are not always rejected when********2************ [18] ******************2******* *********************2******************. IRS management agreed that the reject

[16] Authority granted to the IRS in the Internal Revenue Code that allows the IRS to systemically correct certain mathematical or clerical errors on a tax return.
[17] A tax return can have more than one reject condition.
[18] ****************************2***
**********************************2*******************************.

code is not functioning as intended and plans to correct the programming for Processing Year 2016. According to the IRS, the reject code is currently evaluating only the first occurrence of the *********2************* but should be evaluating all occurrences.

Evaluation of real-time error identification

The IRS's real-time error identification process identified more than 1.3 million PTC error conditions on tax returns processed as of March 25, 2015.[19] However, our analysis of tax returns processed as of March 26, 2015, identified concerns with the functionality of four (20 percent) of the 20 PTC error codes. Figure 6 provides a breakdown of tax returns identified relative to the 20 PTC error codes.

Figure 6: Analysis of PTC Error Codes as of March 25, 2015

Error Code	Code Type	Description	Tax Returns With Error Condition
275	Math Error	********************2***************************** ****************2********************.[20]	223,083
344	Math Error	**************************2************************ ***************2*******************.	25,310
274	Math Error	************************2************************** ***************************2***************	21,185
276	Math Error	***********************2****************************** ***********************2****************************** *************2*************.	14,276
345	Math Error	*************************2**************************** *************************2**************************** *************************2**************************** *************************2*************************** ***************2********************.	14,118
271	Math Error	************************2***************************** *************************2************************ **********2***************.	3,008

[19] A tax return can have more than one error condition.
[20] ************************************2**
*************************************2***
*****2******

Error Code	Code Type	Description	Tax Returns With Error Condition
270	Math Error	***********************2******************************* ***********************2****************************** **********************2***************************** ***************2*************.	2,210
346	Math Error	***********************2**************************** ***********************2**************************** ***2****	1,240
273	Math Error	***********************2***************************** **********************2***************************** ***************2*************.	1,186
272	Math Error	************************2*************[21] ************ **********************2***************************** *********2*****..	0
195	Other	************************2**************************** **********************2*************	473,107
190	Other	************************2************************** **********************2************************** ***********************2************************** ********************2**************************** *********2***********.	257,938
199	Other	************************2************************** **********************2**************************** *********2*****	193,287
198	Other	************************2************************** **********************2**************************** ******2*********.	51,928
196	Other	************************2************************** **********************2**************************** ******2*********.	38,145
197	Other	************************2************************** **********************2**************************** **************************2*************************** *****2*******.	29,483

[21] ***************************************2***
*******************************2*******************************.

Error Code	Code Type	Description	Tax Returns With Error Condition
194	Other	**********************2**************************** ***********************2************************** ************************2************************* ************************2********************** ***2****	4,616
191	Other	*************************2*************************** *************************2************************* *************************2*********************** *********************2***************	2,628
192	Other	*************************2*********************** *************************2********************* *************2**************	500
193	Other	*************************2********************** *************************2********************* *************************2********************* **********2*******.	0

Source: IRS Internal Revenue Manual and Error Code Volume reports.

As of May 13, 2015, the IRS has confirmed that because of programming errors, the four error codes we identified did not always identify tax returns with the particular error condition.

- Error Codes 197 and 198: Computer programming did not identify returns for which the *************************2** ************************2** ************************2************************. To address the programming errors, the IRS plans to implement computer system changes in May and September 2015 to reflect *****************2*********************** ********************2*********.

- Error Code 199: Computer programming did not always identify returns for which *****************************2***********************************. The IRS plans to implement computer system changes in May 2015 to ensure that the error code sets when *********************************2****************.

- Error Code 275: Computer programming did not identify returns for which ***2*** ******************************2************************************ ******************************2************************************ ********2********. The IRS plans to implement computer system changes in October 2015 to ******************2********************************** ********************2*******************.

We are continuing to quantify the impact of these errors on the IRS's identification of erroneous PTC claims.

<u>Programing errors resulted in incorrect collation of monthly data to the taxpayer and incorrect calculation of total APTC</u>

On February 13, 2015, we alerted IRS management that the process to consolidate information for all monthly EPD records for the taxpayer who is the policy holder may not be functioning as intended. This consolidation is needed to verify the accuracy of taxpayers' reconciliation of APTCs and/or calculation of the PTC. We identified instances in which the EPD shows that taxpayers received the APTC for a given month but the IRS was not including the APTC for this month in its verification of the individuals' tax returns. As a result, the IRS's calculation of the PTC that these taxpayers should receive may be incorrect and can result in the IRS inappropriately delaying tax refunds and/or allowing erroneous claims. The following provides a hypothetical example of the error we brought to the IRS's attention:

> *The EPD shows Taxpayer A's family received APTCs from January through September (9 months) at $100 per month for a total of $900 in APTCs. Taxpayer A completed Form 8962 and determined that he or she is eligible for $1,800 in allowable PTC. Because Taxpayer A's family already received $900 in APTCs, he or she is entitled to $900 ($1,800 - $900) in additional PTC on his or her tax return. However, the IRS used only the $100 in APTC reported by the Exchange in January when calculating Taxpayer A's allowable PTC, which resulted in the IRS determining that Taxpayer A was entitled to only $200 in allowable PTC and $100 ($200 - $100) in additional PTC on his or her tax return. As a result, the IRS would inappropriately delay Taxpayer A's refund while trying to determine why he or she claimed $900 in additional PTC when the IRS calculated only $100 in additional PTC.*

The IRS completed a detailed comparison of the EPD to what the IRS's computer system computed as amounts for premiums, SLCSP, and APTCs for the example cases we provided. Based on its analysis, the IRS indicated that errors in the EPD were causing the IRS to incorrectly identify some monthly EPD records as duplicate records and therefore not include them in the calculation of allowable PTC. IRS management indicated that they will continue to provide feedback and have open dialogue with Exchanges to perfect reporting.

In addition, the IRS identified two additional errors as a result of its analysis of the example cases we provided. These errors may also cause the IRS's calculations of the PTC for these taxpayers to be incorrect and can result in the IRS inappropriately delaying tax refunds for taxpayers who are correctly reporting their PTC or allowing erroneous claims. The IRS determined that its computer programming was:

- Incorrectly projecting December APTC in some cases when the EPD for December was not provided by the Exchange.

- Not projecting December APTC when the EPD shows that the taxpayer received an APTC in prior months and the taxpayer did not provide Form 8962.

According to IRS management, the IRS plans to refine its computer programming for Processing Year 2016 in order to project APTCs for months in which the EPD indicates the individual likely received the APTC but APTC information is not provided and a Form 8962 is not received.

Exchange Use of Internal Revenue Service Information to Reduce Fraud and Overpayments

The HHS OIG is conducting a review of the controls used by the Federal Exchange to ensure that individuals are eligible to enroll in a QHP and to receive assistance,[22] including the APTC. As part of its review, the HHS OIG gathered information on how the CMS uses IRS information at the Federal Exchange in combination with information obtained from other sources to determine eligibility for the PTC.

Individuals who apply at the Federal Exchange for health coverage with financial assistance, including the APTC, are required to provide their projected annual household income for the benefit year for which health insurance coverage is requested (referred to as attested income). The Exchange verifies the attested income by comparing the income to information provided by the IRS and the SSA.[23] The Exchange also uses information obtained from Equifax Workforce Solutions (Equifax) when verifying individuals' attested income.[24]

The Exchange considers the attested income to be verified if the attested income is:

- Lower than the income reflected in IRS and SSA data and the attested income is within 10 percent of the income amount from those sources.
- Higher than the income reflected in IRS and SSA data and not significantly lower[25] than current wage data from Equifax.
- Lower than current wage data available from Equifax and the attested income is within 10 percent of the available current wage data or higher than current wage data available from Equifax. The Exchange will use this method of verification only if attested income cannot be verified using IRS and SSA data or such data are not available.

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22 "Insurance affordability programs" include a State Medicaid program, a State children's health insurance program, a State basic health program, the PTC, and cost-sharing reductions. The HHS OIG reviewed only the APTC and cost-sharing reductions.

23 The Exchange can request data from the IRS and SSA only after the SSA successfully validates the applicant's Social Security Number.

24 Equifax Workforce Solutions is a subsidiary of Equifax Inc. It provides human resource data, analytic services, and verifications of income and employment to both the public and private sectors.

25 According to the CMS, "not significantly lower" means that current wage data from Equifax is not more than 100 percent greater than the attested income.

If the Exchange is unable to verify the applicant's attested income using IRS, SSA, or Equifax information, the Exchange will ask the applicant a series of income discrepancy questions in an attempt to verify the income. The Exchange will consider attested income verified for applicants whose responses to these questions indicate that there will be a change in the projected annual household income for the benefit year.

If the applicant's responses to the income discrepancy questions indicate that there will not be a change in projected annual household income for the benefit year or there is no data with which to verify the attested income, the Federal Exchange will place the applicant into an inconsistency period. The Exchange will send the applicant an eligibility determination notice requesting documentation to substantiate his or her attested income. The Exchange will consider an applicant's attested income verified if the applicant provides satisfactory documentation showing that his or her household income is within 20 percent of the attested income.[26] For those applicants who are unable to support their attested income or who do not timely respond to the Exchange request for information, the Exchange will determine eligibility to receive the APTC based on data available from the IRS and SSA. If IRS and SSA data are not available, the Exchange discontinues any financial assistance, including the APTC.

When the Federal Exchange notifies an applicant that he or she is eligible to enroll in a QHP and for the APTC, it also informs the applicant that he or she may have to refund some or all of the APTC when filing a tax return if the applicant does not report life changes to the Exchange that may affect eligibility. The CMS informed the HHS OIG that the tax reconciliation process is an important safeguard against inaccurate determinations of APTC amounts. The CMS also stated that it is working with the IRS to ensure that APTC payments are properly made. The CMS and the IRS have been engaged in a series of ongoing weekly meetings during 2014 and 2015. These meetings covered a range of topics such as information technology, communications, and Exchange policy and operations. The CMS also stated that the IRS has hosted a series of IRS Reporting Workshops in 2014 to provide information to the Exchanges related to IRS reporting requirements. The CMS and IRS also communicate on an as needed basis as questions or issues arise.

The HHS OIG is continuing to evaluate the effectiveness of the controls in place at the Federal Exchange to ensure that individuals are eligible to enroll in a QHP and to receive assistance in paying for their insurance, including the APTC. The HHS OIG plans to issue a report on its assessment later this calendar year.

[26] As of September 2, 2014, the CMS would also consider an applicant's attested income to be verified when the annual household income shown on documentation provided by the individual was lower than the attested annual household income by more than 20 percent but above the FPL.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide selected information related to the IRS's processing of PTC claims during the 2015 Filing Season.[1] We plan to issue the final results of our analysis in September 2015. To accomplish the objective, we:

I. Contacted the Federal Exchange and the California State Exchange to gather information on the number of erroneous Forms 1095-A, *Health Insurance Marketplace Statement*, issued to taxpayers and the types of errors contained on the Forms 1095-A.

II. Monitored IRS workloads related to the processing of PTC claims.

   A. Determined the number of PTC claims received by the IRS during the 2015 Filing Season.

   B. Monitored the total Error Resolution inventory volume and volume of PTC error codes and determined whether the error codes were functioning as intended.

   C. Monitored e-file tax returns for conditions that should have been rejected and determined whether the reject codes were functioning as intended.

III. Evaluated the receipt and loading of Exchange Periodic Data.

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 IRS's policies and procedures for obtaining, validating, and using the EPD provided by the Exchanges and the IRS's policies and procedures for monitoring and validating the accuracy of APTC reconciliations and PTC claims at filing. We evaluated these controls by interviewing IRS management, reviewing key system documentation related to the verification and processing of APTC reconciliations and PTC claims at filing, and performing an independent calculation of the PTCs that taxpayers were entitled to receive. We also evaluated the controls that are incorporated directly into computer applications to help ensure the validity, completeness, and accuracy of transactions and data during application processing of tax returns for the 2015 Filing Season.

[1] The period from January through mid-April when most individual income tax returns are filed.

Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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Audit Liaison: Chief, Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PEI

Appendix IV

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

MAY 27 2015

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Debra Holland Debra Holland
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Affordable Care Act: Interim Results of the Internal Revenue Service Verification of Premium Tax Credit Claims (Audit # 201540317.01)

Thank you for the opportunity to review and provide comments on the subject draft report. We appreciate your acknowledgement of the successful IRS efforts in processing and verifying the Premium Tax Credit (PTC) during the 2015 Filing Season.

The IRS is responsible for determining the proper amount of PTC a taxpayer is entitled to receive. This filing season the IRS implemented a combination of vigorous preprocessing and real-time error controls to help identify potentially erroneous PTC claims. The 80 new validation checks we implemented identified over 200,000 tax returns that were rejected back to the sender for correction. Other validation checks in the return processing stream further identified more than 1.3 million error conditions that were addressed and resolved before the returns were allowed to complete processing.

We are pleased with the overall success of these efforts and believe these controls were effective. As 2015 is the first year for processing these claims, we recognize the performance of some error codes should be improved, and we are taking steps to implement the appropriate changes for the next filing season.

Your report notes that the IRS did not receive Form 1095-A, *Health Insurance Marketplace Statement*, from all Exchanges by the required due dates, but fails to mention actions taken by the IRS before the filing season to help address this situation. The IRS developed and implemented contingency plans, which included contacting taxpayers when we did not have Exchange Periodic Data (EPD) information available to determine whether the taxpayer went to the Exchange. Also, when the Form 1095-A data was available, the IRS used this information as a secondary source of verification to determine whether the taxpayer went to the Exchange, and to compare the information provided by the taxpayer with the Form 1095-A data. The IRS continues to work with the Exchanges to improve data reporting.

If you have any questions, please contact me, or a member of your staff may contact Ivy McChesney, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.