

Treasury Inspector General for Tax Administration

Press Release

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IRS Capacity to Handle Increased Health Coverage Tax Credits Limited, TIGTA Finds

The Internal Revenue Service (IRS) successfully and promptly expanded the Health Coverage Tax Credit (HCTC) as required by the American Recovery and Reinvestment Act of 2009 (Recovery Act), however it will have difficulty in handling significant increases in the number of monthly enrolled participants, a new report concludes.

The Treasury Inspector General for Tax Administration (TIGTA) found that the IRS successfully increased the Federal Government subsidy for the HCTC from 65 percent to 80 percent and allowed individuals to receive reimbursement while enrolling in monthly payment option. The HCTC is a refundable tax credit created in 2002 to assist certain workers who lost their jobs due to foreign trade and retirees who receive payments from the Pension Benefit Guaranty Corporation.

While the IRS successfully processed a 67 percent increase in the number of individuals whose health plans received monthly payments (from 15,533 individuals in 2009 to 25,960 individuals in 2010), its ability to process a significantly larger volume is limited, TIGTA found. The HCTC Program and systems are built to support only 57,000 enrolled participants. The IRS will face challenges if there is a significant increase in the number of monthly enrolled participants as a result of provisions included in the Recovery Act or newly enacted healthcare reform legislation.

"Fortunately, the number of claims for this credit has been within IRS's capacity to process the claims and payments," said J. Russell George, the Treasury Inspector General for Tax Administration. "The IRS will need to take Program and system capacity limitations into consideration when preparing for implementation of new health care laws."

TIGTA made three recommendations to improve the accuracy and consistency of HCTC payment information including ensuring that individuals receive accurate Health Coverage Tax Credit (HCTC) Advance Payments (Form 1099-H) payment information. The IRS agreed with two of the three recommendations but disagreed with TIGTA's recommendation to ensure individuals receive accurate Forms 1099-H.

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2010reports/201041122fr.pdf>.