



Treasury Inspector General for Tax Administration

THE HUMAN CAPITAL OFFICE MADE IMPROVEMENTS TO THE EMPLOYEE TAX COMPLIANCE PROGRAM BUT HAS NOT YET IMPROVED THE DETECTION OF NONCOMPLIANCE

Issued on August 31, 2007

Highlights

Highlights of Report Number: 2007-10-128 to the Internal Revenue Service Chief Human Capital Officer.

IMPACT ON TAXPAYERS

The Employee Tax Compliance (ETC) Program Office has taken several steps to improve the Program, but efforts to better detect potential employee noncompliance are still in the development stage. Until these efforts are fully implemented, certain kinds of employee tax noncompliance may not be detected. Employee noncompliance with the tax laws could cause embarrassment to the Internal Revenue Service (IRS) and erode the public's confidence in the tax system.

WHY TIGTA DID THE AUDIT

In May 2001, TIGTA received allegations that some IRS employees were understating their tax liabilities. TIGTA coordinated with the IRS Small Business/Self-Employed Division to audit a sample of employee returns. As of October 2005, 405 employee (or former employee) tax returns had been reviewed and resulted in adjustments to taxable income (both increases and decreases) averaging about \$1,000.

Because the ETC Program was not designed to detect these cases, and because the recommendations from two earlier studies had not been fully implemented, the IRS established a task force in March 2004 to reassess the Program. The Task Force issued a report in November 2004 that made six recommendations to improve the Program. The overall objective of this review was to determine whether the IRS effectively implemented the Task Force recommendations and whether the ETC Program is able to proactively identify instances in which employees may have understated their tax liabilities.

WHAT TIGTA FOUND

The Human Capital Office (HCO) established the ETC Program Office to provide leadership for the Program and to coordinate with the IRS operating divisions. The

*Email Address: Bonnie.Heald@tigta.treas.gov
Web Site: <http://www.tigta.gov>*

Program Office has taken actions to improve how the IRS oversees employee tax compliance.

However, the HCO has not fully implemented all of the Task Force recommendations. Actions to better track and share data are not yet completed, and efforts to better detect potential employee noncompliance are still in the development stage. As a result, the ETC Program still cannot identify certain types of employee tax noncompliance. In addition, the Program Office has not developed performance measures to assist in evaluating its efforts to improve employee tax compliance.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Chief Human Capital Officer (1) determine how best to timely and effectively improve employee tax compliance detection procedures and weigh the risk of not implementing them and achieving the goals associated with them against other priorities of the HCO, (2) ensure the ETC Program Manager creates a new schedule for implementing the remaining Task Force recommendations, and (3) develop performance measures so the ETC Program can be fully assessed.

In their response to the report, IRS officials stated that they agreed with the recommendations in the report. IRS officials plan to assess the staffing needs of the ETC Program Office, revise the schedule of Task Force recommendations, develop a risk-assessment methodology, prioritize noncompliance projects, and review current HCO data systems and suggest integration strategies. The IRS has begun the process of developing performance measures.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2007reports/200710128fr.pdf>

Phone Number: 202-927-7037