



Treasury Inspector General for Tax Administration Office of Audit

ADDITIONAL STEPS NEED TO BE COMPLETED TO ENSURE THE SUCCESS OF THE SERVICE-WIDE NON-FILER STRATEGY

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Highlights

Highlights of Report Number: 2008-30-165 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

Individuals, businesses, and other taxable entities with income more than certain threshold amounts are required to file income tax returns. The timely filing of required tax returns is critical to the United States income tax system. The Internal Revenue Service (IRS) considers non-filing to be an egregious problem because it contributes to the tax gap and can cause compliant taxpayers to lose faith in the fairness of the tax system. Therefore, it is important that the IRS establish measurable program goals and a systemic method to track and monitor cases worked as part of the Service-wide Non-filer Strategy initiatives. The IRS should also explore the costs/benefits of purchasing agreements with private external data sources as a more cost-effective approach to taxpayer outreach and education to address chronic and unknown non-filers.

WHY TIGTA DID THE AUDIT

This audit was initiated to review the progress the IRS' Small Business/Self-Employed Division has made in identifying non-filers and determining what potential new data sources for detecting non-filers and other forms of underreporting have been investigated that could assist in that effort. The report identifies additional steps the IRS needs to take to ensure the success of its Service-wide Non-filer Strategy.

In response to a prior TIGTA audit report, the IRS agreed to develop a Service-wide Non-filer Strategy to coordinate and track all efforts taken to plan, control, and improve efficiency in identifying and working non-filer cases. As part of this strategy, the IRS was to establish measurable program goals, develop an organization-wide tracking system to monitor progress, and leverage technology and research capabilities to increase the use of third-party information to identify unknown non-filers and improve non-filer case selection. In addition, the IRS was to partner with external sources to develop and implement effective outreach and

education actions to reduce the number of chronic non-filers and allocate compliance resources accordingly.

WHAT TIGTA FOUND

TIGTA found that Service-wide non-filer outcome and performance measures were not yet approved and adopted and there was no systemic method in place to track and monitor cases that are worked as part of Service-wide Non-filer Strategy Initiatives.

As part of the review, TIGTA tried to identify any potential new/external data sources that were being used (or were planned to be used) by the IRS for taxpayer outreach and education as part of the Service-wide Non-filer Strategy to address chronic and unknown non-filers. While IRS management pointed to the use of external data obtained from the State Reverse File Match Initiative and other State provided data as examples of their use of third-party data to identify non-filers, the initiatives appear to be limited in scope. The IRS does not currently participate in any purchasing agreements with private external data sources

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Deputy Commissioner for Services and Enforcement establish Service-wide Non-filer Strategy outcome and performance measures, develop a Service-wide systemic method to track and monitor cases selected to be worked as part of non-filer initiatives, and explore the costs/benefits of purchasing agreements with private external data sources.

In their response to the report, IRS officials agreed with all of the recommendations. IRS management has 1) developed outcome and performance measures, 2) plans to assess whether current systems can be enhanced to track and monitor cases and, if not feasible, plans to determine the cost for developing an enterprise system, and 3) plans to explore which private data sources would enhance the IRS' available internal research and determine the costs/benefits of using these private data sources.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2008reports/200830165fr.pdf>.

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