



Treasury Inspector General for Tax Administration Office of Audit

ACCURACY-RELATED PENALTIES ARE SELDOM CONSIDERED PROPERLY DURING CORRESPONDENCE AUDITS

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Highlights

Highlights of Report Number: 2010-30-059 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

IMPACT ON TAXPAYERS

The accuracy-related penalty is designed to promote voluntary compliance by imposing an economic cost on taxpayers who choose not to comply with the tax law. Because penalties are not always considered and applied when warranted, the Internal Revenue Service (IRS) may be missing opportunities to further promote voluntary compliance and enhance revenue for the Department of the Treasury.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the accuracy-related penalty was assessed during correspondence audits in accordance with IRS policies and procedures. The audit was conducted as part of our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

WHAT TIGTA FOUND

Despite an emphasis on case file documentation and layers of management controls, additional steps must be taken to ensure procedures are followed in considering and recommending the accuracy-related penalty during correspondence audits. A review of a statistical sample of 229 correspondence audits closed in Fiscal Year 2008 found 211 (92 percent) audits for which penalties were not considered and assessed in accordance with IRS policies and procedures.

As a result, opportunities may have been missed to promote compliance among an estimated 1,851 taxpayers in the population reviewed and to enhance penalty and interest revenue by an estimated \$3.5 million. Because the audits reviewed were conducted through the mail, they did not entail complicated areas of tax law. Each of the audits also resulted in the taxpayer agreeing they owed additional taxes of at least \$5,000. The \$5,000 threshold is

important because it allowed TIGTA to review audits where examiners were required to consider assessing an accuracy-related penalty.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Campus Compliance Services, Small Business/Self-Employed Division, and the Director, Compliance, Wage and Investment Division, follow through to ensure planned training is completed by all correspondence examiners and their managers and that the training specifically addresses when the accuracy-related penalty is applicable, how case files should be documented, and when managerial approval is required. They should also require managers and examiners to properly complete the accuracy-related penalty lead sheets for all applicable audits.

IRS management agreed with the recommendations and plans to take appropriate corrective actions. The Director, Campus Compliance Services, Small Business/Self-Employed Division, and the Director, Compliance, Wage and Investment Division, plan to conduct accuracy-related penalty training and emphasize managerial reviews for penalty assertion/nonassertion. Also, IRS management plans to submit a programming request to add the penalty lead sheets to the Campus Report Generating System and ensure the accuracy-related penalty is considered in Program Analysis System quality reviews.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2010reports/201030059fr.pdf>

Email Address: inquiries@tigta.treas.gov
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