



Treasury Inspector General for Tax Administration Office of Audit

REVENUE OFFICERS TOOK APPROPRIATE LEVY ACTIONS BUT FACE CHALLENGES AND DELAYS BRINGING TAXPAYERS INTO COMPLIANCE

Issued on November 21, 2011

Highlights

Highlights of Report Number: 2012-30-007 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

When taxpayers owe delinquent taxes, one of the collection tools available to the IRS is the levy. Although levy authority is a useful tool, there are limitations and challenges that can diminish its effectiveness for collecting unpaid tax. If the IRS does not effectively pursue collection of unpaid tax, it could create an unfair burden on the majority of taxpayers who fully pay their taxes on time.

WHY TIGTA DID THE AUDIT

TIGTA initiated this audit to determine whether levies were effectively issued by Small Business/Self-Employed Division revenue officers (RO). The audit was included in TIGTA's Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

WHAT TIGTA FOUND

Levy authority allows the RO to work directly with financial institutions and other third parties to seize taxpayer assets. The ROs are required to issue the taxpayer a Letter 1058, *Notice of Intent to Levy and Notice of Your Right to a Hearing*, at least 30 days prior to taking levy action. Upon receipt of this notice, taxpayers have 30 days in which to pay the tax due or appeal the potential levy action. After the enactment of the IRS Restructuring and Reform Act of 1998, the number of levies issued by the ROs dropped from more than 473,000 in Fiscal Year (FY) 1998 to approximately 75,000 in FY 2000. However, the ROs have increased the number of levies in each year since FY 2003, including a 73 percent increase from FY 2009 to FY 2010. During FY 2010, the ROs issued approximately 667,000 levies.

TIGTA reviewed a statistical sample of 60 RO cases involving levy actions and determined RO actions were appropriate and complied with IRS procedures and

statutory requirements. However, TIGTA identified several barriers that limit the impact the levy actions have on taxpayer compliance. Specifically, levy notification and the Collection Due Process can postpone collection actions; taxpayer privacy rights limit RO access to taxpayer financial information; strict timing requirements result in multiple repeat levy actions; and the ROs must rely on third parties, such as banks and employers, to comply with levy notices.

To help improve the process and help taxpayers become compliant, the IRS is preparing a legislative proposal that will expand continuous levies to include additional income sources, such as rental income and non-employee compensation.

TIGTA also reviewed a statistical sample of 30 cases in which the taxpayer appealed the levy action and determined taxpayer requests to appeal can be used to delay collection actions. In 28 (93 percent) of 30 cases, the ROs levy action was upheld by the Appeals function. In 25 (89 percent) of the 28 cases upheld by Appeals, the taxpayers did not follow through with the appeal. Specifically, 16 taxpayers did not provide the Appeals Officer with additional information that was requested, and nine taxpayers did not participate in their hearing because they withdrew their appeal or did not attend the scheduled Collection Due Process hearing in person or by phone. While taxpayers are entitled to appeal rights, collection action was suspended in these cases for an average of five months, and the time Appeals Officers spent preparing for these cases was unproductive.

WHAT TIGTA RECOMMENDED

Although TIGTA made no recommendations in this report, IRS officials were provided an opportunity to review the draft report. IRS management did not provide any comments on the draft report.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2012reports/201230007fr.pdf>.

E-mail Address: TIGTACommunications@tigta.treas.gov

Phone Number: 202-622-6500

Website: <http://www.tigta.gov>