



Treasury Inspector General for Tax Administration Office of Audit

INCREASING REQUESTS FOR OFFERS IN COMPROMISE HAVE CREATED INVENTORY BACKLOGS AND DELAYED RESPONSES TO TAXPAYERS

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Highlights

Highlights of Report Number: 2012-30-033 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

An offer in compromise (OIC) is an agreement between a taxpayer and the Federal Government that settles a tax liability for payment of less than the full amount owed. TIGTA found that the IRS did not always contact taxpayers when promised, and inventory backlogs caused processing delays. Delays could impact financial and business decisions because taxpayers do not know if or when their tax liabilities will be resolved.

WHY TIGTA DID THE AUDIT

From 2001 through 2009, the National Taxpayer Advocate reported the OIC Program as one of the most serious problems facing taxpayers. This audit was initiated to assess the effectiveness of the OIC Program to timely process requests, consistently apply OIC guidelines, accurately measure Program results, and effectively promote the Program.

WHAT TIGTA FOUND

The combined impact of a weak economy and IRS efforts to promote the OIC Program has increased the number of requested offers by 28 percent between Fiscal Year 2007 and Fiscal Year 2011. However, the resources available to work the offers have decreased. TIGTA reviewed a statistically valid sample of offers and found the IRS did not process all offers timely. In 73 (74 percent) of 99 offers, the IRS failed to contact the taxpayer by the promised date. TIGTA estimates that 9,509 taxpayers who submitted offers between July 1 and December 31, 2010, may not have been contacted when promised.

Additionally, as of October 25, 2011, there were 7,472 unassigned offers in holding queues awaiting assignment to OIC staff. TIGTA found that one processing site had more than four times as many unassigned offers from self-employed taxpayers

compared with the other site, and 37 percent of the offers were more than six months old.

TIGTA also determined that an incorrect date was used when offers were returned to the IRS because of IRS processing errors. TIGTA estimates that the wrong date may have been used for 712 taxpayers who submitted offers between July 1, 2010, and December 31, 2010. Finally, the IRS does not have formal performance measures for streamlined offers.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS revise OIC processing procedures, train employees, and add a formal performance measure for the streamlined offers or apply the streamlined process to all offers.

In their response to the report, IRS officials agreed with the recommendations and plan to take appropriate corrective actions. The IRS plans to keep taxpayers better informed by increasing the amount of time they tell taxpayers it will take until they are contacted as well as issuing an interim letter if contact is not made within the specified time. The IRS plans to initiate reassignment of offers between the sites as needed. In addition, the IRS plans to apply most aspects of the streamlined process to the remainder of the OIC cases. Also, the IRS agreed with the outcome measures in the report.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2012reports/201230033fr.pdf>.