

IRS OVERSIGHT BOARD PUBLIC FORUM

FEBRUARY 28, 2012

PRESENTATION OF ANDRE' L. RE

Panel 1: How can Correspondence Audits be more effective for the IRS and less burdensome for taxpayers?

First, I want to thank the Board for inviting me here today to present my suggestions. My remarks will cover not only correspondence audits, but also correspondence generated by the Automated Underreporter (AUR) program. These are generally indistinguishable to the taxpayer and are similar in burden and resolution.

The Internal Revenue Service Data Book, 2010 provide the following statistics:

Total Returns examined via correspondence	1,272,632	
Nonbusiness w/o EITC	458,220	No change range 17-43%
Business and Nonbusiness w/EITC	551,836	No change range 8-23%
AUR contacts	4,336,000	No Change rate not available

I understand that these programs produce much more revenue and enhance compliance more economically when compared to field and office audit examinations; however, they also increase taxpayer burden for a large numbers of taxpayers and tax preparers. It is well documented by TIGTA, other external reports and commentaries that there is room for improvement in this area.

The following are my recommendations:

-a common complaint is that taxpayer correspondence responding to the original inquiry is not timely associated with the case and therefore collection action is automatically initiated. The system should be programmed to place a hold on collection action immediately upon receipt of the response, perhaps at the time it is scanned into the system. It appears that there are not enough resources to work the cases timely and therefore they sit in a queue waiting assignment.

-another problem seems to be that subsequent contacts are handled by a different IRS person each time. I believe the cases are held in a central electronic inventory, perhaps once a taxpayer response is received the case should be assigned to one employee from then on who would be responsible for further contact and case resolution. Email capability to that person would even make this more efficient. Currently the Service does not allow this.

-the current phone system does not allow ready access to an IRS person to assist with questions regarding the IRS correspondence, nor to check on the case status. Additional resources need to be

made available to improve access, or an automated application could be designed in the e-services suite.

-improvements can be made to the workload selection systems to ensure that only cases that have the most likely chance for adjustment are worked. No change rates could be analyzed, filters for AUR and exam selection could be combined with the use of other information such as the Cash Transaction (CTR) data available, audit reconsideration rates (no public data available on this), and unagreed case resolution data to determine the most productive issues. Data for AUR cases should capture results by issue and disposition, i.e. agreed, unagreed, audit recon, etc.

-I would recommend that only small business returns that have an obvious adjustment on their face be completed by correspondence audit. For small businesses an office examination would be much more effective and at least allow for discovery of unreported income if the auditors are properly trained on income probes. Small cash intensive businesses are the least compliant sector of taxpayers, and correspondence examinations are not effective.

-Finally, the real time information system the IRS is working on should reduce the number of unnecessary taxpayer contacts for both the correspondence examinations and AUR notices.