



Treasury Inspector General for Tax Administration Office of Audit

COLLECTION ACTIONS COULD BE ACCELERATED ON SOME LARGE DOLLAR BALANCE DUE ACCOUNTS

Issued on June 22, 2009

Highlights

Highlights of Report Number: 2009-30-090 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division

IMPACT ON TAXPAYERS

While the majority of taxpayers owing \$1 million or more are actively pursued for collection through various programs, TIGTA identified some large dollar taxpayers' accounts where actions could be taken to accelerate accounts to field personnel for investigation and possible enforcement action. By accelerating all accounts where taxpayers owe \$1 million or more, TIGTA estimates the Internal Revenue Service (IRS) could potentially collect \$12.1 million in revenue.

WHY TIGTA DID THE AUDIT

This audit was initiated to evaluate the source and status of large dollar (\$1 million or greater) individual balance due accounts and the actions being taken by the IRS to collect the amounts owed.

The IRS' Unpaid Assessments - Potentially Collectible Inventory - reflects dollars available to be collected and is the focus of the IRS' collection efforts. It contains accounts in notice inventory and delinquent taxpayer accounts in the Automated Collection System, Collection Field function, Queue accounts awaiting field assignment, and accounts shelved due to a lack of IRS resources. Delinquent taxes remain in the inventory until they are either paid, abated, or until the collection statute of limitations expires, which is usually 10 years from the tax assessment date. The review focused on accounts with a balance due of \$1 million or more that were in either the Queue or shelved for 1 year or more.

WHAT TIGTA FOUND

On December 22, 2007, there were 2,454 individual taxpayers in the IRS' potentially collectible inventory who each owed over \$1 million in taxes, interest, and penalties. While the vast majority of these individuals (2,006) were being actively pursued for collection, TIGTA identified 448 accounts totaling approximately \$1.2 billion that were in the Queue or had been shelved. Among the 448 accounts,

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214 accounts were in the Queue or in shelved status for more than a year. Using automated information systems and the IRS' Fiscal Year 2007 collection rate to review a statistically valid sample of 155 accounts, TIGTA determined that \$12.1 million may be collectible from 27 taxpayers who owe a total of approximately \$110 million.

TIGTA determined that three factors contributed to large dollar accounts lingering in the Queue or shelved status. First, IRS officials identified and were working to resolve a programming flaw that allowed accounts to remain in shelved status even when the taxpayer's account reached a balance of \$1 million or more. Second, TIGTA found erroneous codes were preventing some accounts from appearing in the group managers' inventory in the ENTITY Case Management System (ENTITY). Third, the ENTITY is currently programmed to identify and accelerate accounts with assessments of \$1 million or more, but does not take into consideration the related interest and penalties accruals that continue to add to the total account balance owed until paid or otherwise satisfied.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Director, Planning and Analysis, Small Business/Self-Employed Division, follow through with actions to ensure the programming changes are designed, implemented, and functioning in accordance with Collection function policies and procedures. Also, the Director, Planning and Analysis, should explore the cost and benefits associated with changing the ENTITY acceleration criteria of \$1 million to include penalties and interest accruals. If the potential benefits outweigh the cost, the Director should coordinate with appropriate officials to implement the change to the acceleration criteria.

In their response to the report, IRS officials agreed with the recommendations and stated that they have taken actions to address them. Programming changes to both the Inventory Delivery System and the ENTITY were implemented in January 2009, and management plans to monitor these systems to ensure that they are functioning in accordance with Collection function policies. The IRS also initiated a research study to explore changing the ENTITY acceleration criteria and plans to review the results to determine if any appropriate actions are necessary.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2009reports/200930090fr.pdf>

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