



Treasury Inspector General for Tax Administration Office of Audit

PLANS FOR EVALUATING THE USE OF SOFT NOTICES IN ADDRESSING UNDERREPORTING CAN BE ENHANCED

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Highlights

Highlights of Report Number: 2010-30-089 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

IMPACT ON TAXPAYERS

Improving service to taxpayers is one of the highest priorities for the Internal Revenue Service (IRS). Guided by its strategic plan, the IRS's vision is to make it easier for taxpayers to fulfill their civic responsibility to pay taxes by providing them with world-class service, taking proactive steps to better understand issues from the taxpayer's perspective, and reducing taxpayer burden. Consequently, it will be important for the IRS to understand and minimize the time and resources taxpayers spend dealing with soft notices to increase the likelihood of achieving its vision for improving service to taxpayers.

WHY TIGTA DID THE AUDIT

This audit was initiated because the IRS is involved in a multi-year initiative (the Initiative) to determine if soft notices can address underreporting discrepancies. Briefly stated, the notices ask the taxpayer to review their return, and if they underreported their income to file an amended return.

If determined to be successful, the Initiative could result in permanently using soft notices in the IRS Automated Underreporter (AUR) Program to address a large number of taxpayers each year that would not ordinarily be contacted by the IRS due to resource constraints. Given the fact that the notices do not require any taxpayer action, questions can be raised about why the IRS would incur costs to send the notices and risk unnecessarily burdening taxpayers, especially those that result in little or no tax change.

WHAT TIGTA FOUND

This report focused on the IRS's planning activities for the Initiative. In the next phase of the review, TIGTA will assess how well the plan was implemented and managed and if reliable results were produced for

deciding to expand, modify, or terminate the use of soft notices in the AUR Program.

To their credit, the IRS team responsible for conducting the Initiative addressed many key issues during their planning activities. However, TIGTA does have observations in two areas that the team may find useful. The areas involve enhancing the credibility of results and the support information for deciding whether to incorporate soft notices into the AUR Program on a permanent basis.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS establish criteria for determining what will constitute success for the Initiative and ensure all costs are quantified for determining the net benefit of implementing the soft notice process in the AUR Program. IRS management agreed with both recommendations.

IRS management plans to develop the metrics in the coming year to measure and report soft notice results. As for determining the net benefit of implementing the soft notice process, IRS management responded that the large-scale rollout will be fully costed as a budget initiative and that no corrective action is necessary. TIGTA is pleased that IRS management agreed with the recommendation. However, the absence of specific commitment on when the full-scale rollout will take place could diminish the effectiveness of an important control for assuring that key issues were considered before deciding to incorporate soft notices into the AUR Program on a permanent basis.

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/201030089fr.pdf>