MOST COMPLIANCE ACTIONS WERE PREVENTED; HOWEVER, SOME LETTERS WERE SENT INAPPROPRIATELY TO TAXPAYERS AFFECTED BY HURRICANES KATRINA AND RITA

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Highlights


IMPACT ON TAXPAYERS

In response to six separate Federal disaster declarations made by the President for Hurricanes Katrina and Rita, the Internal Revenue Service (IRS) used its administrative authority to reduce taxpayer burden by granting broad tax relief for affected taxpayers. The IRS Collection and Examination functions were instructed to suspend compliance activities for affected taxpayers; however, some letters were sent inappropriately to taxpayers.

WHY TIGTA DID THE AUDIT

The review focused on determining whether the Examination and Collection functions were taking compliance actions on cases for taxpayers that were in designated Hurricane Tax Relief areas. This audit was conducted in conjunction with the President’s Council on Integrity and Efficiency as part of its examination of relief efforts provided by the Federal Government in the aftermath of Hurricanes Katrina and Rita.

Various types of tax relief were granted by the IRS to affected taxpayers such as extensions of filing and payment deadlines, abatements of late filing and payment penalties and interest, and other time-sensitive acts. In addition, the IRS Collection and Examination functions were instructed to suspend compliance activities for affected taxpayers through February 28, 2006. The IRS took many actions to provide tax relief to affected taxpayers immediately after the President declared Federal disaster areas.

WHAT TIGTA FOUND

Overall, the IRS prevented most collection and examination activities from occurring. The IRS responded quickly by issuing disaster guidelines and instructions to employees and establishing a Hurricane Katrina/Rita web site for IRS employees with easy access to up-to-date instruction memos, IRS news releases, and designated disaster relief zip code lists.

Our audit determined the IRS suspended most compliance activities on affected taxpayers; however, some letters were sent inappropriately to taxpayers with accounts in the Automated Collection System and the Examination function. The number of actions taken was small in relation to the number of affected taxpayers in the areas. In the first weeks after the Hurricanes, the inappropriate actions were due mainly to a delay that occurs from the date employees initially program disaster indicators on the IRS’ main computer system until it actually shows on the Collection and Examination functions’ inventory systems. Subsequently, the primary reason was that employees took inappropriate actions that were contrary to existing procedures.

While the letters should not have been sent to taxpayers based on the tax relief guidelines, these actions did not result in an immediate adverse action to the taxpayers. Examples include letters to the taxpayers explaining that they had a balance due or a proposed examination tax adjustment and the taxpayers should contact the IRS. The IRS also included another notice to taxpayers with these letters that they could contact the IRS if they lived in an area affected by the Hurricanes.

WHAT TIGTA RECOMMENDED

The Commissioner, Small Business/Self-Employed Division, and the Commissioner, Wage and Investment Division, should coordinate to establish a monitoring process to test the effectiveness of the Automated Collection System programming change to ensure that inappropriate letters and levies are not sent during future disasters.

The Commissioner, Small Business/Self-Employed Division, agreed with our recommendation and has taken corrective action by programming changes to the Automated Collection System and testing the programming changes.

READ THE FULL REPORT

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