The Process to Separate Joint Tax Accounts for Innocent Spouse Cases Has Been Improved; However, Additional Actions Are Needed

March 9, 2007

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1=Tax Return/Return Information

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

March 9, 2007

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Process to Separate Joint Tax Accounts for Innocent Spouse Cases Has Been Improved; However, Additional Actions Are Needed (Audit # 200540029)

This report presents the results of our review of procedures established to protect the rights of spouses requesting Innocent Spouse relief. We focused on the effectiveness of the process and quality controls while separate accounts were established in response to Innocent Spouse relief requests.

Impact on the Taxpayer

The Internal Revenue Service (IRS) now separates joint tax accounts to help protect innocent spouses from collection enforcement actions against the spouses who owe the liabilities. The IRS has taken a number of actions to improve this process so enforcement actions are suspended on the innocent spouse and continued on the other spouse. However, there are still some errors in this process. IRS employees did not always ensure proper actions were taken (or taken timely) on taxpayer accounts while Innocent Spouse claims were being processed.

Synopsis

Congress recognized that some married or divorced taxpayers who had filed joint tax returns believed they were paying taxes on income that they did not earn, know about, or benefit from and enacted legislation that made it easier for taxpayers to file a claim and qualify for Innocent Spouse relief.

Recommendation

We recommended the Commissioner, Wage and Investment Division, establish a consistent, formal methodology for managerial reviews of the inventory and unpostable Innocent Spouse case lists to ensure any identified issues are resolved by IRS employees.

Response

IRS management agreed with the recommendation. The IRS will establish criteria for managerial reviews of the inventory and unpostable Innocent Spouse case lists and will start reviews once the criteria are approved and distributed to managers. IRS management did not agree with the categorization of our second outcome measure, stating that, although the IRS did not input appropriate codes on the three accounts we identified, this would not affect these taxpayers' rights or entitlements because the three accounts were in balance-due status. Therefore, any refunds would have not have been made because the monies would have been applied to the balances due. Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment

We continue to believe our categorization of the outcome is appropriate because these taxpayers would not receive any future refunds even after their balance-due accounts had been fully paid. We estimated there were 691 taxpayers whose tax accounts did not have the appropriate codes input, as required, to ensure refunds were released timely once the tax liabilities had been paid in full.

Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.

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Abbreviations

IMF	Individual Master File
IRS	Internal Revenue Service

Background

Married taxpayers who file joint tax returns are both responsible for any taxes, penalties, or interest due from those returns, even if they later divorce. This means the Internal Revenue Service (IRS) can collect all the taxes due from either person, even if only one person earned all the income.

Congress recognized that some married or divorced taxpayers who had filed joint tax returns believed they were paying taxes on income that they did not earn, know about, or benefit from. Although Congress enacted the IRS Restructuring and Reform Act of 1998,[1] which made it easier for taxpayers to file a claim and qualify for Innocent Spouse relief, the person filing the claim is still responsible for any tax, penalties, and interest that do not qualify for Innocent Spouse relief. Married taxpayers who did not file joint tax returns and live in community property States may also qualify for equitable relief.

To request relief, taxpayers send Requests for Innocent Spouse Relief (Form 8857) to the IRS Cincinnati Centralized Innocent Spouse Operation in Florence, Kentucky, which is responsible for ensuring the taxpayers' rights are protected while their claims are being processed. Once an Innocent Spouse claim is received, it is screened to ensure it meets the basic qualifications for processing.[2] The claim is then reviewed by IRS employees who have had specialized training in evaluating Innocent Spouse claims. These employees use information supplied by the taxpayer and the Individual Master File (IMF)[3] to evaluate whether the taxpayer qualifies for Innocent Spouse relief, relief by separation of liability,[4] or equitable relief.[5]

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[1] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

[2] Basic qualifications for processing an Innocent Spouse claim include, but are not limited to, (1) filed a joint tax return, (2) properly signed the claim form, (3) made a claim for a tax year in which a tax return was filed, and (4) provided a valid Social Security Number.

[3] The IRS database that maintains transactions or records of individual tax accounts.

[4] Under this type of relief, the taxpayer allocates (separates) the understatement of tax (plus interest and penalties) on his or her joint return between the taxpayer and his or her spouse (or former spouse). The understatement of tax allocated to the taxpayer is generally the amount for which he or she is responsible. This type of relief is available only for unpaid liabilities resulting from understatements of tax. Refunds are not allowed.

[5] If the taxpayer does not qualify for Innocent Spouse relief or relief by separation of liability, the taxpayer may still be relieved of responsibility for a portion or the entire amount of tax, interest, and penalties through equitable relief. Unlike with Innocent Spouse relief or relief by separation of liability, the taxpayer can receive equitable relief from an understatement of tax or an underpayment of tax.

Joint tax accounts are separated to provide relief to innocent spouses

The tax account "mirroring process" is used to create separate tax accounts from a joint account, to protect the requesting spouse from collection enforcement actions.

Because the IMF was designed to treat both taxpayers who filed a joint tax return as one unit with a joint tax liability, it has been difficult for the IRS to separate the joint tax liabilities[6] once an Innocent Spouse claim was determined to have met the basic requirements for processing. The IRS now addresses this problem through the "mirroring process," which creates two identical individual accounts on the IMF for each joint tax liability listed on the Innocent Spouse claim. A number of steps in this process are designed to protect the rights of the requesting spouse and the Federal Government's interest while ensuring continued collection enforcement actions are taken against the other (nonrequesting) spouse.

Until the validity of an Innocent Spouse claim is determined, the IRS should not burden the taxpayer requesting relief with inappropriate collection activities.[7] However, collection activity against the spouse (or former spouse) who did not request Innocent Spouse relief is allowed. While the taxpayers' individual accounts are being mirrored, the IRS can ensure collection activity against the taxpayer requesting Innocent Spouse relief has been stopped and collection activity against his or her spouse (or former spouse) continues.

Requesting Innocent Spouse relief can also affect the collection statute for each individual taxpayer on a jointly filed tax return. If a taxpayer requests Innocent Spouse relief, the collection statute may be suspended for the time the Innocent Spouse claim is being considered. However, the collection statute for the requesting taxpayer's spouse (or former spouse) on a jointly filed tax return should not be suspended. Once the joint liability has been mirrored to each taxpayer's individual account, the collection statute can be correctly extended on the requesting taxpayer's individual account for the time the Innocent Spouse claim is being considered, while the collection statute for his or her spouse (or former spouse) would not be extended.

This review was performed at the Wage and Investment Division Headquarters in Atlanta, Georgia, and in the Reporting Compliance function and the Cincinnati Centralized Innocent Spouse Operation in Florence, Kentucky, during the period August 2005 through

[6] Joint tax liabilities may need to be split between the individuals on a joint tax return for the following reasons: (1) the spouses are liable for different tax amounts, (2) the statutory period for collection or assessment needs to be suspended for only one of the taxpayers, (3) extensions or suspensions result in different Collection Statute Expiration Dates (a time period established by law to collect taxes; it is normally 10 years from the date of the tax assessment) or Assessment Statute Expiration Dates (a time period established by law to assess taxes; it is generally determined as 3 years after the return due date or IRS received date, whichever is later) for each of the taxpayers, and/or (4) the need to relieve some portion of the previously assessed tax for either one or both taxpayers.

[7] These would include the filing of levies and the initiation of judicial proceedings.

August 2006. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

Some Actions to Suspend or Resume Collection Enforcement Were Not Completed or Not Completed Timely on Taxpayer Accounts During the Mirroring Process

Because of variations in the way each Innocent Spouse case must be handled, the mirroring process is not fully automated. Consequently, it is a multistep process with a number of complicating factors. It is important that IRS employees take the correct steps in a specific order to prevent collection enforcement action from being taken against the spouse requesting relief and to continue collection enforcement action against the other spouse. The basic sequence of steps is as follows:

- Certain transaction and action codes are input to the taxpayers' joint tax account to create the two individual accounts.
- A series of transaction and action codes must be input to the joint and individual accounts to protect the taxpayer requesting Innocent Spouse relief from inappropriate collection activities and to ensure continued enforcement action is taken on the other spouse.
- The joint tax liability is copied to both individual accounts. Each individual account is cross-referenced to the other account. The joint tax liability is reduced to zero and closed off of the active IMF. A transaction code is then input allowing future refunds to be issued to the nonrequesting spouse once any remaining tax liability has been fully paid.
- Once the IRS determines the amount of relief to be allowed, it adjusts the individual accounts to reflect the appropriate tax liability for each taxpayer.

To evaluate whether IRS employees properly followed this process, we chose a statistical sample of 79 joint tax accounts from a computer extract of Innocent Spouse claims that had been received between December 23, 2004, and September 4, 2005.[8] During this period, the IRS received 12,298 Innocent Spouse relief claims covering 18,656 tax periods. In our sample, 67 joint tax accounts had been through the mirroring process during our review period; therefore, we estimate 10,892 of the 12,298 claims had been through the mirroring process.

In 18 (27 percent) of the 67 reviewed joint tax accounts for which the joint tax liabilities had been separated through the mirroring process, certain required transaction and action codes were

[8] This extract came from the Innocent Spouse Tracking System, which tracks each Innocent Spouse claim from receipt to closing.

not input (or not input timely) to protect the requesting taxpayers from having inappropriate collection activity taken or to ensure continued enforcement action was taken on the nonrequesting spouses. Figure 1 presents the results of our sample.

Figure 1: Results of Review of Joint Accounts Separated Through the Mirroring Process

The Appropriate Codes Were Not Input (or Not Input Timely) to the IMF to Accomplish the Following:	Number of Sample Cases[9]
Suspend collection activity for the taxpayer requesting Innocent Spouse relief.	1
Resume collection activity for the nonrequesting spouse after the mirroring process is completed.	
Timely resume collection activity for the nonrequesting spouse (codes were eventually input but not input timely).	
Prevent refunds for the nonrequesting spouse until the mirroring process is completed.	
Allow future refunds for the nonrequesting spouse once any remaining tax liability has been fully paid.	

Source: Exception cases identified during our case review.

During Fiscal Year 2005, IRS management recognized that there was a high error rate related to these transaction and action codes and took certain actions to address the problem. One cause of this high error rate was the difficulty in determining the proper order and time period for inputting the codes. There is a specific order in which these transaction and action codes need to be input on the taxpayers' accounts on the IMF and, in some instances, there needs to be a specific period of time between inputs, sometimes 1 week or 2 weeks. If the order and/or length of time between inputs are not correct, the requested actions may not be accepted on the taxpayers' accounts on the IMF. To eliminate this complexity, IRS management requested a programming patch, which became effective in May 2005, to automatically input the codes in the correct order and with the correct timing for many of the various transaction and action codes used during the mirroring process. However, there are still some transaction and action codes that cannot be properly input by the programming patch. Some transactions must still be manually input by IRS employees (e.g., correction of unpostable conditions and cases that cannot be mirrored initially due to other conditions such as bankruptcy, offer in compromise, or examination).

[9] The number of exception cases totals 20 because 1 of the cases had more than 1 of the required actions not taken (or not taken timely) on the taxpayers' accounts.

Furthermore, in December 2005, we notified IRS management that refunds to the nonrequesting spouses were not being systemically blocked on some of the mirrored accounts. This problem occurred in some instances when the nonrequesting spouse's name and Social Security Number did not match the IRS' records (because of a name change resulting from divorce or remarriage), which prevented the transaction and action codes from posting. To correct this problem, IRS management requested a programming change to eliminate the name-matching requirement for Innocent Spouse cases.

In addition, the IRS established general guidelines to ensure transaction and action codes are input to taxpayers' accounts within a reasonable amount of time. As of June 19, 2005, new inventory and unpostable lists were made available to IRS employees to help monitor taxpayer accounts going through the mirroring process. In October 2005, training was provided to IRS employees on how to resolve problems when transaction and action codes did not properly post to taxpayers' accounts.

The programming changes, new inventory and unpostable lists, and training that the IRS has implemented should help to reduce the number of transaction and action codes that are not properly input to taxpayers' accounts during the mirroring process. However, based on the results of our sample, the actions taken thus far have not eliminated all the input errors.

Due to timing issues, six of the errors in our sample would not have been prevented by the programming changes. However, Innocent Spouse Operation employees should have identified and resolved the input errors by properly working the inventory and/or unpostable lists. Because Innocent Spouse Operation employees did not timely resolve these input errors, the Federal Government's interest may not have been properly protected and refunds could have been issued to the nonrequesting spouses in these 6 claims with tax liabilities totaling $20,834. Another three errors in our sample could incorrectly prevent nonrequesting spouses from receiving future refunds after the mirroring process was completed. These three errors would not have been prevented by the programming changes, but Innocent Spouse Operation employees should have resolved the input errors by properly working the inventory and/or unpostable lists. Because this did not occur, we estimate that, in the 7,597 Innocent Spouse claims that had begun and/or finished the mirroring process between June 19 (the date the inventory and unpostable lists were required to be used) and September 4, 2005, there were approximately 691 Innocent Spouse claims for which the taxpayers' rights were not protected.

Innocent Spouse Operation managers spot check the inventory and unpostable lists, looking for trends or glaring problems, and perform quality reviews on two cases per employee each month. However, they do not review all of the inventory or unpostable lists unless there is a performance issue. Many of the errors we identified could have been prevented if IRS management had ensured employees effectively monitored and worked their inventory and unpostable lists. Based on the results of our review, the spot checking of inventory and unpostable lists by managers does not appear to be adequate. Until additional systemic improvements are made to further automate the mirroring process, we believe management should adopt a more consistent and formalized review methodology to ensure the issues on the inventory and unpostable lists are resolved by IRS employees and to identify and address the causes for unpostable problems.

Management Action: After we discussed our exception cases and concerns about unpostable conditions with the Cincinnati Centralized Innocent Spouse Operation Operations Manager, the IRS took immediate corrective actions by temporarily consolidating some of the inventory and all unpostable list work into one of the Innocent Spouse Operation units. This remained in effect until the peak processing period for Innocent Spouse claims was over in mid-July 2006. While this was a temporary fix, we were advised that additional help would again be assigned as needed, if these problems continued to occur. In addition, by May 2006, Innocent Spouse Operation employees had been given supplemental refresher training on how to resolve problems when transaction and action codes do not properly post to the taxpayers' accounts.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should establish a consistent, formal methodology for managerial reviews of the inventory and unpostable Innocent Spouse case lists to ensure any identified issues are resolved by IRS employees.

> ***Management's Response:*** IRS management agreed with this recommendation. The IRS will establish criteria for managerial reviews of the inventory and unpostable Innocent Spouse case lists and will start reviews once the criteria are approved and distributed to managers.
>
> IRS management did not agree with the categorization of our second outcome measure, stating that, although the IRS did not input appropriate codes on the three accounts we identified, this would not affect these taxpayers' rights or entitlements because the three accounts were in balance-due status. Therefore, any refunds would have not have been made because the monies would have been applied to the balances due.
>
> ***Office of Audit Comment:*** We continue to believe our categorization of the outcome is appropriate because these taxpayers would not receive any future refunds even after their balance-due accounts had been fully paid. We estimated there were 691 taxpayers whose tax accounts did not have the appropriate codes input, as required, to ensure refunds were released timely once the tax liabilities had been paid in full.

Appendix I

Detailed Objective, Scope, and Methodology

The objective of this review was to evaluate controls that ensure the rights of the spouses requesting relief are protected while the IRS processes requests for Innocent Spouse relief.

We selected a statistically valid sample of 79 joint tax accounts from a population of 18,656 tax periods on 12,298 claims on the Innocent Spouse Tracking System[1] that had been received between December 23, 2004, and September 4, 2005. We used a 90 percent confidence level, a ±5 percent precision rate, and an 8 percent expected error rate. Of the 79 joint tax accounts in our sample, [redacted] had not been mirrored for systemic reasons and [redacted] had been mirrored by another function prior to December 23, 2004. This reduced to 67 the number of joint tax accounts we reviewed that had been through the mirroring process. We performed a limited validation of the data by matching a judgmental sample of 30 Social Security Numbers to the Integrated Data Retrieval System[2] to determine the accuracy of the taxpayer information and account activity. Our tests of the reliability of the data did not identify any errors.

To focus on the effectiveness of the process and quality controls while separate accounts were established for Innocent Spouse relief requests, we:

I. Analyzed our sample of 67 joint tax accounts by researching the IRS IMF[3] and the Integrated Data Retrieval System.

   A. Reviewed the taxpayers' joint accounts to determine whether the IRS took appropriate actions to:

      1. Prevent inappropriate collection activity[4] on the requesting taxpayer's assets during the time the Innocent Spouse claim was being considered.

      2. Prevent erroneous refunds from being generated for the nonrequesting spouse during the time the Innocent Spouse claim was being processed.

      3. Begin the mirroring process and create copies of the joint account for the requesting taxpayer and the nonrequesting spouse.

      4. Complete the mirroring process for the joint account by reducing the liability to zero and close it off the active IMF.

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[1] The Innocent Spouse Tracking System tracks each Innocent Spouse claim from receipt to closing.
[2] The IRS computer system capable of retrieving and updating stored information; it works in conjunction with a taxpayer's account records.
[3] The IRS database that maintains transactions or records of individual tax accounts.
[4] These would include the filing of levies and the initiation of judicial proceedings.

B. Reviewed copies of the joint accounts established for the requesting taxpayers and their spouses (or former spouses) to determine whether the IRS took appropriate actions to:

1. Complete the mirroring process and allow payments to be cross-referenced between the requesting taxpayer's and his or her spouse's (or former spouse's) accounts.
2. Continue to prevent inappropriate collection activity on the requesting taxpayer during the time the Innocent Spouse claim was being considered.
3. Resume collection activity for the spouse (or former spouse) of the requesting taxpayer and allow refunds to be generated, as appropriate.

II. For all of the exceptions identified:

A. Performed research on the IMF.

B. Reviewed supporting documentation provided by Innocent Spouse Operation management.

C. Held discussions with Innocent Spouse Operation management to determine whether managers took adequate actions to monitor for, identify, and resolve any issues or trends, such as embedded systemic problems or employee training, that were identified.

Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs)
Mary V. Baker, Director
Bryce Kisler, Audit Manager
Kristi Larson, Lead Auditor
Sylvia Sloan-Copeland, Senior Auditor
Jean Kao, Auditor

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Wage and Investment Division SE:W
Director, Compliance, Wage and Investment Division SE:W:CP
Director, Strategy and Finance SE:W:S
Director, Reporting Compliance, Wage and Investment Division SE:W:CP:RC
Field Director, Compliance Services (Andover) SE:W:CP:CS:AN
Chief, Headquarters Discretionary Examination SE:W:CP:RC:EX(DISCR)
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective action will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Revenue Protection – Potential; 6 Innocent Spouse claims with joint tax liabilities totaling $20,834 (see page 4).

Methodology Used to Measure the Reported Benefit:

Based on our statistical sample[1] of 79 Innocent Spouse claims (67 of which had been through the mirroring process during our audit review period of December 23, 2004, through September 4, 2005), we identified 6 Innocent Spouse claims (with joint tax liabilities totaling $20,834) that should have been identified by Innocent Spouse Operation employees on inventory and/or unpostable lists as having problems that needed correction. IRS employees did not input (or did not input timely) the proper transaction and action codes to the accounts of these six taxpayers, to protect the Federal Government's interest.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 691 taxpayers affected (see page 4).

Methodology Used to Measure the Reported Benefit:

Based on our statistical sample of 79 Innocent Spouse claims, 67 joint taxpayer accounts had been through the mirroring process between December 23, 2004, and September 4, 2005. Because we had selected our sample based on tax periods, we calculated the statistical frequency of the number of joint taxpayer accounts based on the number of tax periods per claim for the 12,298 Innocent Spouse claims received during our audit review period; therefore, we estimate 10,892 Innocent Spouse claims had been mirrored.

A total of 42 of the 79 joint taxpayer accounts in our sample were mirrored after the IRS had implemented the inventory and unpostable lists on June 19, 2005. Because we had selected our sample based on tax periods, we calculated the statistical frequency of the number of joint

[1] Our sample was based on a 90 percent confidence level, an 8 percent expected error rate, and a ±5 percent precision rate.

taxpayer accounts based on the number of tax periods per claim for the estimated 10,892 Innocent Spouse claims mirrored during our audit review period; therefore, based on our sample, we estimate 7,597 Innocent Spouse claims were mirrored between June 19 and September 4, 2005.

Three of the 79 Innocent Spouse claims in our sample were mirrored after June 19, 2005, and should have been identified on the inventory and/or unpostable lists as having problems that needed correction. The IRS did not input the proper transaction and action codes to the taxpayers' accounts to ensure refunds would be released to the nonrequesting spouses. Because we had selected our sample based on tax periods, we calculated the statistical frequency of the number of joint taxpayer accounts based on the number of tax periods per claim for the estimated 7,597 Innocent Spouse claims mirrored between June 19 and September 4, 2005. We estimate taxpayers' rights were not protected 691 Innocent Spouse claims.

Appendix V

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

RECEIVED
FEB 16 2007

February 15, 2007

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard J. Morgante Richard J. Morgante
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – The Process to Separate Joint Tax Accounts for Innocent Spouse Cases Has Been Improved; However, Additional Actions Are Needed (Audit # 200540029)

I have reviewed your draft report and agree with your overall conclusions and recommendation. I appreciate your acknowledging the corrective actions we have taken to improve the mirroring process we use to resolve Innocent Spouse claims. The mirroring process is necessary because the IRS Master File treats taxpayers that file joint returns as single accounts. As a result, it is necessary for us to separate joint filers' tax liabilities in order to process Innocent Spouse claims. We do this by creating two identical individual "mirror" accounts on the Master File for each joint tax liability listed on an Innocent Spouse claim.

As noted in your report, in 2005 we automated actions necessary to initiate the mirroring process. This automation assures the appropriate sequence and timing of many transaction and action codes, thereby simplifying the process and reducing errors. Likewise, we implemented a programming change to facilitate transaction posting and to allow the systemic blocking of an account to prevent, among other things, issuing refunds to non-requesting spouses during the mirroring process. We created new inventory and unpostable lists to further enhance the identification and resolution of unpostable issues. We provided the Innocent Spouse Operations staff with comprehensive training on preventing and resolving unpostable conditions. Finally, as you noted, we also consolidated unpostable work. This allowed us to improve efficiency and provide better taxpayer service during peak processing.

While I agree with your first outcome measure related to revenue protection, I disagree with the categorization of your second outcome measure as an issue of taxpayer rights and entitlements. We work very hard to protect the rights of both requesting and non-requesting spouses throughout the mirroring process. While I agree that the appropriate codes were not input on the three cases outlined in this outcome measure, in all three cases the non-requesting spouses' accounts were in a balance due status. Therefore, we would not have refunded the money held but would have applied it to their balances due. Thus, there was no harm to these taxpayers or violation of their rights or entitlements.

Our response to your recommendation is attached. If you have any questions, please call me at (404) 338-7060, or members of your staff may contact Jane Looney, Director, Reporting Compliance, at (404) 338-7139.

Attachment

Attachment

RECOMMENDATION
The Commissioner, Wage and Investment (W&I) Division, should establish a consistent and formalized methodology for managerial reviews of the inventory and unpostable Innocent Spouse case lists to ensure that any identified issues are resolved by IRS employees.

CORRECTIVE ACTION
We agree with this recommendation. The Innocent Spouse Operation will establish criteria for managerial reviews of the inventory and unpostable Innocent Spouse case lists. The reviews will start once the criteria is approved and distributed to the managers.

IMPLEMENTATION DATE
August 15, 2007

RESPONSIBLE OFFICIAL
Director, Reporting Compliance, W&I

CORRECTIVE ACTION MONITORING PLAN
The Director, Reporting Compliance will follow up with the Innocent Spouse Operations Manager to verify the inventory and unpostable Innocent Spouse case lists are reviewed.