



*Delays in Transferring Innocent Spouse
Claims Have Resulted in Some Inappropriate
Collection Actions*

September 14, 2007

Reference Number: 2007-40-175

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

1 = Tax Return/Return Information

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 14, 2007

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

Michael R. Phillips

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Delays in Transferring Innocent Spouse Claims
Have Resulted in Some Inappropriate Collection Actions
(Audit # 200740005)

This report presents the results of our review to evaluate the controls over forwarding Innocent Spouse¹ claims for processing. This audit was included in our Fiscal Year 2007 Annual Audit Plan.

Impact on the Taxpayer

The Cincinnati Centralized Innocent Spouse Operations (CCISO) in Florence, Kentucky, was created to ensure Innocent Spouse claims were processed accurately, timely, and consistently. Many of the Innocent Spouse claims received by various Internal Revenue Service (IRS) campuses and/or field functions were received in the CCISO for processing more than 30 calendar days² after initial receipt by the IRS. Extended delays in transferring Innocent Spouse claims increase the risk that the IRS will take against taxpayers some inappropriate collection actions that should have been prevented.

Synopsis

Our analysis of the Innocent Spouse Tracking System determined that various IRS campuses and/or field functions took more than 30 days (74 days average) to forward to the CCISO

¹ See Appendix V for a glossary of terms.

² Unless otherwise stated, all days referred to in this report are calendar days.



Delays in Transferring Innocent Spouse Claims Have Resulted in Some Inappropriate Collection Actions

7,765 (23 percent) of the 33,389 Innocent Spouse claims they had received in Fiscal Years 2003 through 2006. Review of a sample of claims received in Fiscal Year 2006 and transferred to the CCISO more than 30 days after initial receipt by the IRS showed 71 percent were handled by 2 or more functions.

Once the CCISO receives an Innocent Spouse claim, it is required to systemically control the taxpayer's account within 15 days unless the claim fails to meet the basic requirements for processing.³ It is critical for this control to be input timely, to ensure no inappropriate collection actions⁴ are taken on the taxpayer requesting relief.

Recommendations

The Commissioner, Wage and Investment Division, should coordinate with the Commissioner, Small Business/Self-Employed Division, to establish a 10-workday Innocent Spouse claim transfer standard for claims not sent directly to the CCISO by taxpayers; establish an evaluation and feedback process to identify transfer delay causes and trends for functions not meeting this new standard; and issue a memorandum to all compliance, field assistance, and submission processing employees reminding them of the importance of timely sending Innocent Spouse claims to the CCISO and stopping inappropriate collection actions on all taxpayers requesting Innocent Spouse relief. In addition, the Commissioner, Wage and Investment Division, should ensure any money being held inappropriately as a result of these transfer delays is immediately released to the taxpayers.

Response

IRS management agreed with the recommendations. Wage and Investment Division management will coordinate with Small Business/Self-Employed Division management to establish a 10-workday Innocent Spouse claim transfer standard for any claims not sent directly to the CCISO by taxpayers. They will also develop a monthly evaluation and feedback report that will include the noncompliant operation(s), original claim received date, and CCISO received date and will list any incorrect collection action resulting from the lateness. This report will be distributed monthly to the headquarters staff responsible for that operation and will be monitored by the CCISO.

³ 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 the claim for a tax year in which a tax return was filed, and (4) provided a valid Social Security Number.

⁴ These would include the filing of levies and the initiation of judicial proceedings. IRS policy also considers withholding taxpayer refunds an inappropriate action.



Delays in Transferring Innocent Spouse Claims Have Resulted in Some Inappropriate Collection Actions

Wage and Investment Division management will prepare a memorandum to be shared with the Small Business/Self-Employed Division and all compliance, field assistance, and submission processing function employees reminding them of the importance of (1) timely transferring Innocent Spouse claims to the CCISO and (2) stopping inappropriate collection actions on all taxpayers requesting Innocent Spouse relief. They also agreed to conduct an immediate review to ensure there are no monies currently being withheld incorrectly on delayed claims from the campus and field functions. Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. 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

CCISO	Cincinnati Centralized Innocent Spouse Operations
IRS	Internal Revenue Service



Delays in Transferring Innocent Spouse Claims Have Resulted in Some Inappropriate Collection Actions

Background

In Fiscal Year 1998, the Internal Revenue Service (IRS) created the Cincinnati Centralized Innocent Spouse Operations (CCISO)¹ in Florence, Kentucky, to ensure Innocent Spouse claims were processed accurately, timely, and consistently. Taxpayers can submit their Innocent Spouse claims either directly to the CCISO or through any IRS campus and/or field function, which will forward the claims to the CCISO for processing. If a taxpayer is working with an IRS employee and sends the Innocent Spouse claim directly to the CCISO, there are procedures for notifying the employee that an Innocent Spouse claim has been received. In Fiscal Years 2003 through 2006, the IRS received approximately 102,000 Innocent Spouse claims, 33,389 (33 percent) of which were transferred to the CCISO from various IRS campuses and/or field functions.

The IRS received approximately 102,000 Innocent Spouse claims in Fiscal Years 2003 through 2006.

To request Innocent Spouse relief, taxpayers must submit a Request for Innocent Spouse Relief (Form 8857). Once an Innocent Spouse claim is received by the CCISO, 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 to evaluate whether the taxpayer qualifies for Innocent Spouse relief, relief by separation of liability, equitable relief, or relief from liability arising from community property law.

In a prior Treasury Inspector General for Tax Administration report,³ we reported that Innocent Spouse claims were not always timely processed because there were no timeliness requirements for handling the Forms 8857 received by the various campuses and field functions. We recommended the establishment of a timeliness benchmark for these Innocent Spouse claims. However, the IRS disagreed that the benchmark was necessary, stating other actions it was taking should significantly decrease the number of claims received in the campuses and field functions.

¹ See Appendix V for a glossary of terms.

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 *Improvements Are Needed to Ensure Innocent Spouse Claims Are Accurately and Timely Processed* (Reference Number 2003-40-136, dated June 2003).



*Delays in Transferring Innocent Spouse Claims Have
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This review was performed in the Reporting Compliance function at the Wage and Investment Division Headquarters in Atlanta, Georgia, and the CCISO during the period August 2006 through May 2007. 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.



Delays in Transferring Innocent Spouse Claims Have Resulted in Some Inappropriate Collection Actions

Results of Review

Delays in Transferring Innocent Spouse Claims Have Resulted in Some Inappropriate Collection Actions

Our analysis of the Innocent Spouse Tracking System determined that various IRS campuses and/or field functions took more than 30 calendar days⁴ (74 days average) to forward to the CCISO 7,765 (23 percent) of the 33,389 Innocent Spouse claims they had received in Fiscal Years 2003 through 2006. Figure 1 provides the results of our analysis.

Figure 1: Analysis of Innocent Spouse Claims Received by the CCISO More Than 30 Calendar Days After Initial Receipt

Fiscal Year	Total Claims Transferred to the CCISO	Claims Taking Longer Than 30 Days to Transfer to the CCISO	Percentage of Claims Transferred Taking Longer Than 30 Days	Average Days to Transfer Claims to the CCISO
2003	4,580	1,430	31%	101
2004	10,610	2,232	21%	74
2005	9,552	2,079	22%	70
2006	8,647	2,024	23%	61
Totals	33,389	7,765	23%	74

Source: Our analysis of the Innocent Spouse Tracking System.

To identify the cause of the delays in transferring Innocent Spouse claims, we selected and analyzed a statistically valid attribute sample of 129⁵ of the 2,024 claims that were received in the CCISO more than 30 days after initial receipt in various IRS campuses and/or field functions in Fiscal Year 2006. We obtained copies of the Innocent Spouse claims; reviewed them for IRS functional receipt dates, dates of routing memoranda, and fax dates; and determined the length of time the various IRS functions kept the claims before forwarding them.

⁴ Unless otherwise stated, all days referred to in this report are calendar days.

⁵ For 19 (15 percent) of the 129 Innocent Spouse claim files sampled, the Forms 8857 had already been returned to the taxpayers or forwarded to the appropriate functions for processing. As a result, we were able to perform a detailed analysis on only 110 (85 percent) of the 129 Innocent Spouse claims.



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- In 18 (14 percent) of the 129 cases, the Innocent Spouse claims went directly from the receiving functions to the CCISO. These claims were delayed an average of 57 days, with the longest delay being 119 days.
- In 57 (44 percent) of the 129 cases, the Innocent Spouse claims went through 2 functions before reaching the CCISO. These claims were delayed an average of 60 days, with the longest delay being 156 days.
- In the remaining 35 (27 percent) of the 129 cases, the Innocent Spouse claims went through 3 or more functions before reaching the CCISO. These claims were delayed an average of 73 days, with the longest delay being 145 days.

Applying these percentages to the Fiscal Year 2006 population of Innocent Spouse claims that were received in the CCISO more than 30 days after initial receipt by the IRS, we estimate that, at a minimum, 1,437 (71 percent) of the 2,024 delayed claims were handled by 2 or more functions.

Once the CCISO receives an Innocent Spouse claim, its goal is to systemically control the taxpayer's account within 15 days unless the claim fails to meet the basic requirements for processing. It is critical for this control to be input timely, to ensure no inappropriate collection actions⁶ are taken on the taxpayer requesting relief. Extended delays in transferring an Innocent Spouse claim increase the risk that the IRS will take against the taxpayer some inappropriate collection actions that should have been prevented.

In 36 of the Innocent Spouse claims in our sample, IRS employees determined the claims either did not meet the basic requirements for processing or were transferred to another function to process as an Injured Spouse claim. Delays in receiving notification that their Innocent Spouse claims were rejected may cause taxpayers to delay seeking payment options as an alternative to enforced collection actions. Also, additional interest continues to accrue on these accounts until they are fully paid by the taxpayers or determined to be uncollectible by the IRS.

⁶ These would include the filing of levies and the initiation of judicial proceedings. IRS policy also considers withholding taxpayer refunds an inappropriate action.



Delays in Transferring Innocent Spouse Claims Have Resulted in Some Inappropriate Collection Actions

Instructions on Form 8857 tell taxpayers to send Innocent Spouse claims directly to the CCISO unless (1) they are meeting with an IRS employee about an examination, examination appeal, or collection action or (2) they have received a notice of deficiency and the 90-day response period has not yet expired. In those instances, the taxpayers are to provide the IRS employee with the Form 8857, and the employee is to forward it to the CCISO for processing. Based on detailed analysis of 110 sampled claims, we believe employees were either (1) not properly identifying the Innocent Spouse claims when they came into the employees' function and/or (2) not aware that transferring Innocent Spouse claims to the CCISO is an IRS priority. Most of the delays occurred in various units in the campus functions. Many of these misidentifications may have occurred because the Innocent Spouse claims were attached to tax returns or other correspondence. These causes were confirmed by interviews with various campus and field personnel.

IRS functions have procedures for handling the receipt and transfer of Innocent Spouse claims. Most functional procedures stress the importance of timely transferring the Innocent Spouse claims to the CCISO. However, Innocent Spouse Program management does not provide feedback to the originating function on untimely claim transfers.

After we discussed the results of our review with the IRS management, they revised Form 8857 instructions to tell taxpayers to send their Innocent Spouse claims directly to the CCISO. We believe this clarification may help to significantly reduce the number of Innocent Spouse claims that are untimely transferred from the various campuses and/or field functions to the CCISO.

In a separate analysis of all Fiscal Year 2006 Innocent Spouse claims received in the CCISO more than 30 days after initial receipt by the IRS,

 In addition, the IRS inappropriately withheld refunds and/or levied \$83,374 from 51 taxpayers claiming Innocent Spouse relief. The IRS eventually released \$43,112 back to some of the taxpayers and paid an

Figure 2: Filing Instructions for Form 8857

Where To File	
Do not file Form 8857 with your tax return or fax it to the IRS. Instead, see below.	
IF ...	THEN file Form 8857 with ...
You are meeting with an IRS employee for an examination, examination appeal, or collection	That IRS employee.
You received an IRS notice of deficiency, and the 90-day period specified in the notice has not expired*	The IRS employee named in the notice. Attach a copy of the notice. Do not file Form 8857 with the Tax Court.
Neither situation above applies to you	Internal Revenue Service Stop 840F, P.O. Box 120069 Covington, KY 41012

Source: Instructions for Form 8857.



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additional \$850 in interest.⁷ However, it is not treating all taxpayers filing Innocent Spouse claims fairly and consistently.

The Internal Revenue Code and IRS policy require that all taxpayers requesting relief be protected from inappropriate collection actions while their Innocent Spouse claims are being considered by the IRS. This guidance does not provide for an exclusion of Innocent Spouse claims that are delayed due to IRS case transfer procedures. Delays in placing controls on the accounts of taxpayers claiming Innocent Spouse relief have resulted in inappropriate collection actions. The IRS should make every effort to quickly release these funds to the taxpayers and ensure all taxpayers claiming Innocent Spouse relief are treated fairly. If controls are not timely placed on taxpayers' accounts, the IRS compliance functions will not know that certain compliance actions should be stopped, which will result in taxpayers continuing to be burdened with inappropriate collection actions.

Recommendations

Recommendation 1: The Commissioner, Wage and Investment Division, should coordinate with the Commissioner, Small Business/Self-Employed Division, to establish a 10-workday Innocent Spouse claim transfer standard for any claims not sent directly to the CCISO by taxpayers. An evaluation and feedback process should be established within the CCISO to identify transfer delay causes and trends for functions that are not meeting this new standard.

Management's Response: IRS management agreed with this recommendation. Wage and Investment Division management will coordinate with Small Business/Self-Employed Division management to establish a 10-workday Innocent Spouse claim transfer standard for any claims not sent directly to the CCISO by taxpayers. However, taxpayers who mail their forms to Submission Processing sites during peak processing from January to June each year and not to the CCISO, as required, may continue to realize some delays. Wage and Investment Division management will develop a monthly evaluation and feedback report, which will be maintained and monitored by the CCISO. The report will include the noncompliant operation(s), original claim received date, and CCISO received date. It will also list any incorrect collection action resulting from the lateness. This report will be distributed monthly to the headquarters staff responsible for that operation.

Recommendation 2: The Commissioner, Wage and Investment Division, should coordinate with the Commissioner, Small Business/Self-Employed Division, to issue a memorandum to all compliance, field assistance, and submission processing employees reminding them of the importance of (1) timely transferring Innocent Spouse claims to the CCISO and (2) stopping inappropriate collection actions on all taxpayers requesting Innocent Spouse relief.

⁷ See Appendix IV.



Delays in Transferring Innocent Spouse Claims Have Resulted in Some Inappropriate Collection Actions

Management's Response: IRS management agreed with this recommendation. Wage and Investment Division management will prepare a memorandum to be shared with the Small Business/Self-Employed Division and all compliance, field assistance, and submission processing employees reminding them of the importance of (1) timely transferring Innocent Spouse claims to the CCISO and (2) stopping inappropriate collection actions on all taxpayers requesting Innocent Spouse relief.

Recommendation 3: The Commissioner, Wage and Investment Division, should ensure employees immediately release to taxpayers requesting Innocent Spouse relief any money inappropriately withheld as a result of delays in transferring their claims to the CCISO.

Management's Response: IRS management agreed with this recommendation. Wage and Investment Division management will conduct an immediate review to ensure there are no monies currently being withheld incorrectly on claims received late from campus and field functions. They will ensure the report, developed as part of their corrective action to Recommendation 1, is reviewed and monitored by the CCISO to ensure no monies are being inappropriately held. A monthly analysis will be conducted.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the controls over forwarding Innocent Spouse¹ claims for processing. Our limited tests of the reliability of data obtained from the Innocent Spouse Tracking System did not identify any errors. We tested the reliability of the data by scanning the data received for blank, incomplete, illogical, or improper data. In addition, we traced 25 cases from the Innocent Spouse Tracking System to the source IRS files to ensure accuracy. We did not perform any testing of internal controls over the system that was the source of the data. To accomplish the objective, we:

- I. Determined how timely the various IRS functions were in forwarding Innocent Spouse claims to the CCISO.
 - A. Analyzed the Fiscal Year 2006 Innocent Spouse Tracking System claim data to determine the number of calendar days it took for each claim to be received by the CCISO after initial receipt in a campus and/or field function.
 - B. Determined where the delays occurred in the transfer of Innocent Spouse claims.
 1. Selected a statistically valid attribute sample of 129² of the 2,024 claims that were received in the CCISO more than 30 calendar days³ after initial receipt by the IRS in Fiscal Year 2006. We used a 95 percent confidence level, a ± 5 percent precision rate, and a 10 percent estimated error rate.
 2. Reviewed the sampled case documentation to identify:
 - a. Which campus, field function, and/or employee(s) appeared to have caused the claim transfer delays.
 - b. Any events documented in the case history that may have affected the timely transfer of the claim.
 - C. Determined what effect the delay in transferring the Innocent Spouse claims to the CCISO may have had on taxpayers and the Federal Government.

¹ See Appendix V for a glossary of terms.

² For 19 (15 percent) of the 129 Innocent Spouse claim files sampled, the Requests for Innocent Spouse Relief (Form 8857) had already been returned to the taxpayers or forwarded to the appropriate functions for processing. As a result, we were able to perform a detailed analysis on only 110 (85 percent) of the 129 Innocent Spouse claims.

³ Unless otherwise stated, all days referred to in this report are calendar days.



Delays in Transferring Innocent Spouse Claims Have Resulted in Some Inappropriate Collection Actions

1. Analyzed the Individual Master File data for the 2,024 Innocent Spouse claims identified in Step I.B.1. to determine if any of these taxpayers were burdened by inappropriate collection actions (e.g., refund offsets, levies, or seizures) and/or if the Federal Government lost revenue as a result of delays in transferring these claims.
 2. Analyzed the Fiscal Years 2003 through 2006 Innocent Spouse claim data.
 - a. Determined the number of calendar days it took to transfer each claim from the campus and/or field function to the CCISO (stratified results by 0 days - 30 days and greater than 30 days).
 - b. Trended the yearly results to determine if the IRS' comment that timeliness benchmarks for campus and/or field function transfers are not required because other actions being taken "should significantly decrease the number of claims received in the field" is still correct.
- II. Identified the controls in place to ensure Innocent Spouse claims are timely transferred from the campuses and/or field functions to the CCISO.
- A. Determined the controls that have been established by the Innocent Spouse Program for transferring Innocent Spouse claims to the CCISO by interviewing program management and obtaining and reviewing documentation. We identified:
 1. The controls in place to monitor the transfer of Innocent Spouse claims from the campuses and/or field functions.
 2. The directions or guidance provided to the field functions regarding timely transfers of Innocent Spouse claims.
 - B. Determined what controls have been established by the campuses and/or field functions for transferring Innocent Spouse claims by interviewing various campus and/or field personnel from those functions with the highest number of Innocent Spouse claims transferred to the CCISO and obtaining and reviewing documentation. We identified:
 1. The controls in place to monitor the transfer of Innocent Spouse claims from the campuses and/or field functions.
 2. The directions or guidance they have received or established regarding timely transfer of Innocent Spouse claims.
 3. The feedback that has been provided to them concerning untimely Innocent Spouse claim transfers.



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Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs)

Mary V. Baker, Director

Marybeth Schumann, Director

Bryce Kisler, Acting Director

Alan Lund, Acting Audit Manager

Kristi Larson, Lead Auditor

Sharon Summers, Senior Auditor

James Traynor, Senior Auditor

Jean Kao, Auditor

Craig Pelletier, Auditor



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Appendix III

Report Distribution List

Acting Commissioner C
Office of the Commissioner – Attn: Acting Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
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Deputy Commissioner, Wage and Investment Division SE:W
Director, Compliance, Wage and Investment Division SE:W:CP
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI
Director, Reporting Compliance, Wage and Investment Division SE:W:CP:RC
Chief, Headquarters Discretionary Examination, Wage and Investment Division
SE:W:CP:RC:EX (DISCR)
Field Director, Compliance Services (Andover), Wage and Investment Division
SE:W:CP:CS:AN
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



Delays in Transferring Innocent Spouse Claims Have Resulted in Some Inappropriate Collection Actions

Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Revenue Protection – Actual; [REDACTED] (see page 3).

Methodology Used to Measure the Reported Benefit:

Based on an analysis of refunds issued during Fiscal Year 2006 to the spouses (or former spouses) of the 2,024 taxpayers whose Innocent Spouse claims were received in the CCISO¹ more than 30 calendar days² after initial receipt by the IRS, [REDACTED]

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Actual; \$83,374 in funds inappropriately taken from 51 taxpayers requesting Innocent Spouse relief during Fiscal Year 2006 (see page 3).

Methodology Used to Measure the Reported Benefit:

Based on an analysis of all 2,024 Fiscal Year 2006 Innocent Spouse claims that were received in the CCISO more than 30 days after initial receipt by the IRS, the IRS inappropriately withheld refunds and/or levied \$83,374 from 51 taxpayers claiming Innocent Spouse relief.

Type and Value of Outcome Measure:

- Funds Put to Better Use – Actual; \$850 in interest paid on funds inappropriately taken from taxpayers requesting Innocent Spouse relief during Fiscal Year 2006 (see page 3).

¹ See Appendix V for a glossary of terms.

² Unless otherwise stated, all days referred to in this report are calendar days.



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Methodology Used to Measure the Reported Benefit:

Based on an analysis of all 2,024 Fiscal Year 2006 Innocent Spouse claims received in the CCISO more than 30 days after initial receipt by the IRS, the IRS paid \$850 in interest to taxpayers claiming Innocent Spouse relief that had had their refunds inappropriately withheld and/or levies on their accounts.



Delays in Transferring Innocent Spouse Claims Have Resulted in Some Inappropriate Collection Actions

Appendix V

Glossary of Terms

Term	Definition
Campus	The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Cincinnati Centralized Innocent Spouse Operations	IRS function located in Florence, Kentucky, responsible for the Innocent Spouse Program.
Equitable Relief	A taxpayer that does not qualify for Innocent Spouse relief or relief by separation of liability 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.
Individual Master File	The IRS database that maintains transactions or records of individual accounts.
Injured Spouse	A taxpayer that filed a joint tax return and for whom all or part of his or her portion of the overpayment was, or is expected to be, applied (offset) to his or her spouse's legally enforceable past-due Federal tax, State income tax, child or spousal support, or a Federal nontax debt (e.g., a student loan).
Innocent Spouse Program	IRS program responsible for determining if taxpayers qualify for Innocent Spouse relief, as well as determining if taxpayers qualify for relief by separation of liability, equitable relief, or relief from liability arising from community property law.
Innocent Spouse Relief	A taxpayer can be relieved of responsibility for paying tax, interest, and penalties if his or her spouse (or former spouse) improperly reported items or omitted items on their tax return.
Innocent Spouse Tracking System	A computerized inventory system that tracks Innocent Spouse claims from receipt to closing.



Delays in Transferring Innocent Spouse Claims Have Resulted in Some Inappropriate Collection Actions

Term	Definition
Levy	A legal seizure of property to satisfy a tax debt.
Relief by Separation of Liability	A 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.



Delays in Transferring Innocent Spouse Claims Have Resulted in Some Inappropriate Collection Actions

Appendix VI

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

August 21, 2007

RECEIVED

AUG 22 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 – Delays in Transferring Innocent Spouse
Claims Have Resulted in Some Inappropriate Collection Actions
(Audit # 200740005)

I reviewed your draft report and agree with your overall conclusion and recommendations. As you acknowledge in your report, the improvements we made to Form 8857 (Request for Innocent Spouse Relief) and related instructions should significantly reduce the number of untimely Innocent Spouse claims that are transferred from various campus and field functions. The instructions now direct taxpayers to only send their Innocent Spouse claims to the Cincinnati Centralized Innocent Spouse Operation (CCISO); thus, greatly reducing the number of claims that will ultimately be received outside of CCISO. I was pleased that you informed my staff that once Forms 8857 were received by CCISO, they were processed timely.

We agree with the outcome measures you outlined. The corrective actions we have planned in response to your recommendations will further improve our service to taxpayers and should prevent inappropriate collection actions in the future.

Attached are our comments to your recommendations. If you have any questions, please call me at (404) 338-7060, or members of your staff may contact Jim Grimes, Director, Compliance, at (404) 338-9904.

Attachment



*Delays in Transferring Innocent Spouse Claims Have
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Attachment

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should coordinate with the Commissioner, Small Business/Self-Employed Division, to establish a 10 work day Innocent Spouse claim transfer standard for any claims not sent directly to the CCISO by taxpayers. An evaluation and feedback process should be established within the CCISO to identify transfer delay causes and trends for functions that are not meeting this new standard.

CORRECTIVE ACTION

We agree with this recommendation. We will coordinate with the Small Business/Self-Employed Division to establish a 10 work day Innocent Spouse claim transfer standard for any claims not sent directly to CCISO by taxpayers. However, taxpayers who mail their forms to Submission Processing sites during peak processing from January to June each year and not to CCISO, as required, may continue to realize some delays. We will develop a monthly evaluation and feedback report, which will be maintained and monitored by CCISO. The report will include the non-compliant operation(s), original claim received date, and CCISO received date. It will also list any incorrect collection action resulting from the lateness. This report will be distributed on a monthly basis to the headquarters staff responsible for that operation.

IMPLEMENTATION DATE

January 15, 2008

RESPONSIBLE OFFICIAL

Director, Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2

The Commissioner, Wage and Investment Division, should coordinate with the Commissioner, Small Business/Self-Employed Division, to issue a memorandum to all compliance, field assistance and submission processing employees reminding them of the importance of (1) timely transferring Innocent Spouse claims to the CCISO and (2) stopping inappropriate collection actions on all taxpayers requesting Innocent Spouse relief.

CORRECTIVE ACTION

We agree with this recommendation and will prepare a memorandum to be shared with the Commissioner, Small Business/Self-Employed Division and all compliance, field assistance and submission processing employees reminding them of the importance of



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(1) timely transferring Innocent Spouse claims to the CCISO and (2) stopping inappropriate collection actions on all taxpayers requesting Innocent Spouse relief.

IMPLEMENTATION DATE

November 15, 2007

RESPONSIBLE OFFICIAL

Director, Reporting Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control process.

RECOMMENDATION 3

The Commissioner, Wage and Investment Division, should ensure that employees immediately release to taxpayers requesting Innocent Spouse relief any money inappropriately withheld as a result of delays in transferring their claims to the CCISO.

CORRECTIVE ACTION

We agree with this recommendation and will conduct an immediate review to ensure there are no monies currently being withheld incorrectly on claims received late from field and campus functions. We will ensure that the report, developed as part of our corrective action to Recommendation 1, is reviewed and monitored by CCISO to ensure no monies are being inappropriately held. A monthly analysis will be conducted.

IMPLEMENTATION DATE

November 15, 2007

RESPONSIBLE OFFICIAL

Director, Reporting Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control process.