



Treasury Inspector General for Tax Administration Office of Audit

TRENDS IN COMPLIANCE ACTIVITIES THROUGH FISCAL YEAR 2008

Issued on June 10, 2009

Highlights

Highlights of Report Number: 2009-30-082 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

This report is a compilation of statistical information reported by the Internal Revenue Service (IRS). TIGTA did not verify or validate the authenticity or reliability of the data and, therefore, did not identify any specific impact on the taxpayer. However, continued effort to improve compliance is important to reducing the tax gap and maintaining the integrity of the voluntary tax compliance system.

WHY TIGTA DID THE AUDIT

TIGTA conducts this review of nationwide compliance statistics for Collection and Examination functions activities each year. This review is included in our Fiscal Year 2009 Annual Audit Plan under the major management challenge of Tax Compliance Initiatives. Nationwide data from IRS management information system reports were used during the review.

WHAT TIGTA FOUND

During Fiscal Year 2008, many compliance activities summarized in the report showed only slight increases, or decreased. However, the levels of compliance activities are still higher than what occurred during the years immediately following implementation of the IRS Restructuring and Reform Act of 1998. The increases occurred even though the combined enforcement staff level in the Collection and Examination functions is not significantly higher than the 10-year low experienced in Fiscal Year 2003.

After several years of improved results, some Collection function activities and results declined during Fiscal Year 2008. The use of liens continued to increase, but the use of levies and seizures decreased during the year. Enforcement revenue collected also decreased, and the total dollar amount of uncollected liabilities increased. However, the gap between new delinquent account receipts and closures narrowed by just over 1 percent by the end of the year.

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In September 2006, the IRS started assigning balance-due cases to private collection agencies. However, the IRS recently announced that contracts with the private collection agencies would not be renewed. While the IRS plans to hire additional personnel during Fiscal Year 2009, it will take time for the personnel to be fully trained. Even after they are trained, it is unlikely that they will be assigned the types of cases that were worked by the private collection agencies.

During Fiscal Year 2008, the overall percentage of tax returns examined decreased by almost 3 percent, while the number of examiners at the end of the fiscal year was unchanged when compared to the end of Fiscal Year 2007. However, the overall percentage of tax returns examined was almost 12 percent higher than in Fiscal Year 1999.

The number of tax returns of individuals examined increased. However, almost 82 percent were conducted via correspondence examinations, which are usually not as comprehensive as face-to-face examinations.

The number of corporate tax returns examined increased by just over 1 percent. However, the number of these examinations has declined almost 23 percent since Fiscal Year 1999.

Continued effort to improve compliance is important to reducing the tax gap and maintaining the integrity of the voluntary compliance system. According to a tax gap strategy document dated September 2006, the tax gap for Tax Year 2001 was \$345 billion. The strategy document provides a broad base on which to address the tax gap, but depends on future budgets to provide detailed strategy elements. In August 2007, the IRS released a report that builds on the strategy by providing details about actions planned to reduce the tax gap. However, many of the actions will require the assistance of Congress.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report. However, TIGTA did provide IRS officials an opportunity to review the draft report. IRS management did not provide any report comments.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2009reports/200930082fr.pdf>.

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