



Treasury Inspector General for Tax Administration Office of Audit

AN APPROPRIATE METHODOLOGY HAS BEEN DEVELOPED FOR CONDUCTING THE NATIONAL RESEARCH PROGRAM STUDY TO MEASURE THE VOLUNTARY COMPLIANCE OF INDIVIDUAL INCOME TAXPAYERS

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Highlights

Highlights of Report Number: 2009-30-086 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division and Director, Office of Research, Analysis, and Statistics.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) is conducting a multiyear National Research Program (NRP) study (hereafter referred to as the NRP study or the study) to measure the voluntary compliance of individual income taxpayers. IRS management developed an appropriate methodology for conducting the study and took proper steps to ensure that the study provides quality and accurate results. Because the NRP study results will be used to help identify tax returns that have a higher likelihood of noncompliance, the IRS can direct resources to where they provide the most value, which will reduce the burden on compliant taxpayers.

WHY TIGTA DID THE AUDIT

This audit was performed because the IRS recognized the need for more current information about individual taxpayer compliance and initiated a new Individual Reporting Compliance Study. The objective of our review was to determine the adequacy of the methodology for conducting the study. This audit was conducted as part of the TIGTA Fiscal Year 2009 Annual Audit Plan under the major management challenge of Tax Compliance Initiatives.

WHAT TIGTA FOUND

TIGTA determined that the methodology of the NRP study sampling plan was appropriate. Our review verified that the sample size was sufficient to measure the statistical reliability of results, the related calculations were accurate and consistent, and the formulas were appropriate. In addition, the sampling process was generally carried out as planned during the first year of the study.

To ensure the quality and accuracy of results, management instituted a multilayered quality review

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process, procedures for manual and systemic checks for data accuracy, and an effective process for training employees. While there are requirements for quality reviews at the field office and Area Office levels, there are no requirements for quality reviews to be conducted at the national level.

After NRP study examination procedures had been established, management determined that the quality review process would be improved by involving personnel at the national level. As a result, national level analysts conducted Program visitations the first year of the study and will participate in reviews with each of the Area Office NRP study quality review teams during the second year of the study. However, without continued national involvement in the quality review process, the IRS' ability to provide proper oversight and ensure consistency and quality could be negatively affected.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Examination, Small Business/ Self-Employed Division, include a provision in the Internal Revenue Manual requiring Small Business/Self-Employed Division Examination Headquarters and NRP staff to provide oversight of NRP reviews conducted by Area Offices.

In their response to the report, IRS officials agreed with the recommendation and plan to update the Internal Revenue Manual for NRP Individual Income Tax Reporting Compliance Studies to add a provision requiring Small Business/Self-Employed Division Headquarters and NRP staff to provide oversight of NRP exam reviews.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2009reports/200930086fr.pdf>

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