



*Collection Actions on Abusive Tax Avoidance
Transaction Cases Are Generally Effective,
but Measures to Evaluate Performance
Results Are Needed*

June 19, 2009

Reference Number: 2009-30-092

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.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 19, 2009

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Collection Actions on Abusive Tax Avoidance
Transaction Cases Are Generally Effective, but Measures to Evaluate
Performance Results Are Needed (Audit # 200830021)

This report presents the results of our review to determine whether the Small Business/
Self-Employed Division Abusive Tax Avoidance Transaction (ATAT) Collection Program
(hereafter referred to as the ATAT Collection Program or the Program) effectively and
efficiently collects tax assessments and penalties imposed against promoters and/or participants
of ATATs.¹ This audit was included as part of our Fiscal Year 2008 Annual Audit Plan under
the major management challenge of Tax Compliance Initiatives.

Impact on the Taxpayer

ATATs are transactions or schemes that reduce tax liability by taking a tax position that is not
supported by the Internal Revenue Code or by manipulating the law in a way that is not
consistent with its intent. While the Internal Revenue Service (IRS) ATAT Collection Program
effectively pursued the collection of penalty and tax assessments, it did not have appropriate
measures available to provide an overall assessment of the Program's results. Without measures,
the IRS cannot effectively communicate and educate taxpayers about the success of IRS
collection activities taken to stop the use of abusive transactions.

¹ See Appendix IV for a glossary of terms.



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Synopsis

As part of the overall strategy to deter abusive tax transactions, the IRS implemented the Program to provide collection support during promoter investigations and to aggressively pursue collection of penalties and additional tax assessments made in relation to abusive transactions. The Collection function's role in the IRS' ATAT strategy is to promote future compliance of tax laws, help to ensure collectibility issues are addressed upfront in promoter investigations, and take collection enforcement actions as early as allowable by law.

Our review showed that the Program effectively pursued the collection of penalty and tax assessments. In addition, the Program provided collection support to the Examination function and other functions during promoter investigations, identified and assigned high-priority ATAT promoter and participant cases, and generally complied with quality and timeliness standards. However, the Program does not have appropriate measures available to provide an overall assessment of the Program's results. Instead, the Program has inventory indicators in place that are used in evaluating staffing resources needed. These indicators include the number of cases in inventory, the number of direct staff hours expended, and the number of case dispositions. However, these indicators do not measure overall success. Without measures to determine the success of its activities, the IRS cannot effectively determine whether the Program is achieving desired results, make appropriate changes to it if necessary, or communicate and educate the public on the success of IRS collection activities taken to stop the use of abusive transactions.

Recommendation

We recommended that the Director, Collection, Small Business/Self-Employed Division, ensure that program performance measures are developed to measure the success of the ATAT Collection Program.

Response

IRS management agreed with our recommendation. The Director, Collection Policy, Small Business/Self-Employed Division, and the Director, Planning and Analysis, Small Business/Self-Employed Division, will collaborate to identify appropriate ATAT Collection Program outcome measures that can be segregated from existing data collection programs. They will also identify Collection function ATAT-specific results measures and explore means to collect them. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (202) 622-8510.



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*Collection Actions on Abusive Tax Avoidance Transaction Cases
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Abbreviations

ATAT	Abusive Tax Avoidance Transaction
IRS	Internal Revenue Service



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Background

Abusive Tax Avoidance Transactions (ATAT)¹ are transactions or schemes that reduce tax liability by taking a tax position that is not supported by the Internal Revenue Code or by manipulating the law in a way that is not consistent with its intent. If allowed to go on unimpeded, abusive transactions could undermine voluntary compliance by reducing the level of trust that responsible taxpayers have in the integrity of the tax system. According to estimates of the revenue lost due to these schemes, the Federal Government annually loses billions of dollars. Internal Revenue Service (IRS) management determined that the variety, size, and nature of tax shelters require an organized approach to detection, deterrence, and enforcement so that the use of abusive transactions can be stopped.

In March 2002, the IRS and the Department of the Treasury developed a strategy to identify and deter promoters of abusive tax transactions. These efforts included:

- Vigorously enforcing the disclosure,² registration,³ and list maintenance requirements⁴ for tax shelters.
- Identifying and notifying the public early about questionable transactions.
- Prioritizing the use of resources to identify promoters of tax shelters and abusive transactions.

As part of the overall strategy to deter abusive tax transactions, the IRS implemented the ATAT Collection Program (the Program) to provide collection support during promoter investigations and to aggressively pursue collection of penalties and additional tax assessments made in relation to the abusive transactions. The collection of ATAT cases has evolved from tools and techniques used by field revenue officers to resolve difficult cases. The taxpayers involved in abusive transactions may employ multi-tiered business entities or trusts to hide or conceal assets

¹ See Appendix IV for a glossary of terms.

² 26 U.S.C. Section 6011 (2003) requires that any person made liable for any taxes due as a result of income tax regulations shall file an appropriate return or form as prescribed by law with the appropriate information as requested on the return or form.

³ 26 U.S.C. Section 6111 (2003) requires that any tax shelter organizer shall register the tax shelter with the Secretary of the Treasury not later than the day on which the first offering for sale of interests in such tax shelter occurs.

⁴ 26 U.S.C. Section 6112 (2003) requires that any person who organizes any potentially abusive tax shelter, or sells any interest in such a shelter, shall maintain a list identifying each person who was sold an interest in such shelter and containing such other information as the Secretary of the Treasury may by regulations require.



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and income. Often, revenue officers may require assistance from the IRS Office of Chief Counsel to litigate a case or provide advice in the pursuit of assets.

The Program is a component of the Collection Field function. As of December 31, 2008, the Program had approximately 2,800 cases with a total assessed balance due of approximately \$4.3 billion. While this represents less than 2 percent of the Collection Field function's 178,000 cases, it is about 19 percent of the total assessed balance of approximately \$23.1 billion⁵ for the same time period.

This review was performed at IRS Small Business/Self-Employed Division Collection function offices in New Carrollton, Maryland; Seattle, Washington; and field offices in Glendale, Laguna Niguel, and San Bernardino, California; St. Louis, Missouri; and Salt Lake City, Utah, during the period June 2008 through February 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁵ Data for the Program were obtained based on the Treasury Inspector General for Tax Administration's analysis of the Integrated Collection System and Taxpayer Service and Return Processing Categorization file. We obtained the information for the Collection Field function from IRS Collection Report 5000-2 (Taxpayer Delinquent Account Cumulative Report).



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Results of Review

The Collection Function Effectively Identifies and Takes Actions on Abusive Tax Avoidance Transaction Cases

The Collection function's role in the IRS' ATAT strategy is to promote future compliance of tax laws, help ensure collectibility issues are addressed early in promoter investigations, and take collection enforcement actions as early as allowable by the law. Our review showed that the Program effectively pursues the collection of penalty and tax assessments. More specifically, the Program:

- Participated and coordinated actions with the Examination function and other functions during promoter investigations.
- Identified and assigned high-priority ATAT promoter and participant cases.
- Generally complied with quality and timeliness standards.

Collection actions were coordinated with the Examination function and other functions during promoter investigations

Participation and coordination with the Examination function, other functions, and the Criminal Investigation Division during promoter investigations help to ensure that collectibility⁶ issues such as the identification of assets and income sources are addressed early in the process, and that the collection of assessments can be promptly taken. The participation of the Collection function in the promoter investigation stage is on a case-by-case basis, with the Examination function being responsible for obtaining Collection function input during any particular investigation.

We selected a random sample of 30 of 322 promoter cases pending in the ATAT Collection Program during the period May 1, 2007, through April 30, 2008. Our review showed that the Program was available to assist in the promoter investigations. The ATAT Collection Coordinators (generally ATAT Collection Program group managers) maintained working relationships with the Examination function and were included in the routing of authorization documents for promoter investigations.

⁶ IRS guidance indicates that current collectibility should not be a consideration when determining whether to assert a penalty under Internal Revenue Code Section 6700 or Internal Revenue Code Section 6701, unless exceptional circumstances exist.



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As a means to communicate active promoter investigations, the Collection Policy function obtains lists of active promoter cases from the Lead Development Center and provides these lists to ATAT Collection coordinators for review. Our review of the active promoter list as of June 14, 2007, showed Collection function involvement on 515 (69 percent) of 742 active promoter investigations. Since Collection function involvement is on a case-by-case basis, this relatively high volume of participation in promoter investigations indicates a high level of coordination.

High-priority ATAT promoter and participant cases were properly identified and assigned

The Collection function prioritized ATAT collection casework to ensure balanced enforcement and to match Collection function priorities with Examination function strategies. ATAT collection priorities are based on factors such as whether taxpayers were promoters of ATATs and the dollar amount of the unpaid balance (tax, penalties, and interest) of participants.

To identify and assign ATAT collection casework, the Program relies on communication and coordination by the ATAT Collection coordinators. The Collection Policy function obtains case lists from the Lead Development Center and the Examination function, and provides these lists to the ATAT Collection coordinators for review and action. These case lists include information about promoter penalties assessed and closed participant examinations. For example, the Lead Development Center's semi-annual list of taxpayers assessed promoter penalties shows cumulative information on penalties assessed. The Examination function's quarterly list of closed ATAT examinations (referred to as a Status 90 listing) shows closed examination cases that were conducted using project codes reserved for ATAT examinations.

Our review showed that promoter penalties as well as additional tax assessments for participants were effectively assigned for collection. Since Collection function case assignments are based on priority considerations, our results indicated a relatively high case assignment rate. Specifically, we:

- Reviewed 129 taxpayers who were assessed promoter penalties totaling over \$31.9 million for the period May 1, 2007, through April 30, 2008. Our analysis showed that 95 percent of the cases, accounting for almost 98 percent of the dollars assessed, had been appropriately prioritized and assigned as warranted.⁷
- Reviewed 59 taxpayers who had total assessed balances over \$100,000 totaling approximately \$69.6 million⁸ from the July 30, 2008, Status 90 listing for the 2 Area

⁷ We considered case assignments to be not warranted where taxpayers filed for an Appeal or Bankruptcy or where the taxpayers' accounts were previously determined to be not collectible, had an active installment agreement, or had low-dollar penalty assessments.

⁸ This includes tax, penalty, and interest for all tax periods related to these taxpayers.



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Offices we selected for visitation. Our analysis showed that 93 percent of these cases, accounting for 99 percent of the dollars assessed, had been appropriately prioritized and assigned as warranted.⁹

Case actions generally complied with quality and timeliness standards

The Collection function uses the Embedded Quality Program to evaluate, measure, and report organizational quality of casework. Case quality is evaluated using various elements¹⁰ to assess both the quality and timeliness of case actions,¹¹ and these elements are applicable to ATAT cases.

To evaluate the quality and timeliness of case actions taken, we selected a statistically valid sample of 42 cases based on a population of 830 ATAT collection cases closed between May 1, 2007, and April 30, 2008.¹² Using the Embedded Quality Program process, we determined that the Program was generally complying with quality and timeliness standards. Specifically, the Program was actively working ATAT cases using appropriate case actions such as securing and verifying financial information, requesting payments and unfiled tax returns, filing liens, and using other enforcement tools as necessary.

In our review of quality and timeliness of case actions, we used the same attributes and criteria as the Embedded Quality Program. In our sample, 91 percent of the cases were timely for all actions, and 99 percent of the cases were procedurally accurate for all actions. This compares with 79 percent and 76 percent, respectively, for the National Quality Review System results for the Collection Field function during Fiscal Year 2008. We noted that the occurrence of just one untimely or procedurally inaccurate action in any case would cause the entire case to count as not being timely or procedurally accurate. Because there are several possible actions in each case, these results indicate a relatively high-quality score for these two categories.

⁹ We considered case assignments to be not warranted where taxpayers filed for an Appeal, Bankruptcy, or offer-in-compromise; or where the Examination function made no assessments related to the ATAT examination.

¹⁰ The Embedded Quality Program process includes 35 attributes to monitor crucial aspects of organizational performance. These attributes are grouped into five key embedded quality categories: Customer Accuracy, Regulatory Accuracy, Procedural Accuracy, Professionalism, and Timeliness.

¹¹ The Treasury Inspector General for Tax Administration is currently conducting an audit of the Embedded Quality Review Program. We utilized the Embedded Quality Program standards for our evaluation of case quality; however, our review was not intended as an evaluation of the Embedded Quality Program.

¹² We selected our sample using a 90 percent confidence level, an expected error rate of 20 percent, and a precision of ± 10 percent, which resulted in a minimum sample size of 42 closed cases.



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Measures Are Needed to Evaluate Program Performance Results

The Government Accountability Office *Standards for Internal Control in the Federal Government*¹³ recommends that managers compare actual performance to planned or expected results throughout the organization and analyze significant differences. In addition, the Government Accountability Office *Executive Guide: Effectively Implementing the Government Performance and Results Act*¹⁴ explains that a combination of output and outcome measures is appropriate for assessing performance when considering performance measures.

Output measures generally provide information about an undertaking of program actions, such as the number of cases completed or the number of cases completed in a specified time period. For example, an output measure for the ATAT Collection Program is case dispositions. The use of outcome-oriented measures allows management to target problem areas, highlight successes, evaluate alternatives, and determine if the program is achieving desired results.

Outcome-oriented measures show program results achieved on effectiveness, efficiency, or impact. For example, an outcome measure for the ATAT Collection Program could include the method of case disposition (i.e., fully paid, installment agreement, etc.).

However, the Program does not have measures available to provide an overall assessment of its results. The Program does have inventory workload indicators for evaluating the staffing resources needed that includes the number of cases in inventory, the number of direct staff hours expended, and the number of case dispositions. A productivity measure, derived from the number of direct staff hours divided by case dispositions, was also developed. However, these indicators do not measure the overall results of the Program. Without measures to determine the success of its activities, the IRS cannot effectively determine whether the Program is achieving desired results, make appropriate changes to it if necessary, or communicate and educate the public on the success of IRS collection activities taken to stop the use of abusive transactions.

ATAT Collection Program management had not implemented performance measures because overall results are included as part of the Collection Field function program, and there was no systemic process available for the identification and tracking of data specific to the Program. In February 2007 and October 2008, the Collection Policy function initiated data research projects to identify workload that resulted from Examination function ATAT efforts. We were advised that research is expected to be completed by April 2009, and the Collection Policy function would review the data to assess and develop additional program performance measures. The tentative plans are to use historical information from Fiscal Year 2007 as a baseline and use updated analysis for continued monitoring of the Program.

¹³ GAO/AIMD-00-21.3.1, dated November 1999.

¹⁴ GAO/GGD-96-118, dated June 1996.



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Recommendation

Recommendation 1: The Director, Collection, Small Business/Self-Employed Division, should ensure that program performance measures are developed to assess the success of the ATAT Collection Program.

Management's Response: IRS management agreed with our recommendation. The Director, Collection Policy, Small Business/Self-Employed Division, and the Director, Planning and Analysis, Small Business/Self-Employed Division, will collaborate to identify appropriate ATAT Collection Program outcome measures that can be segregated from existing data collection programs. They will also identify Collection function ATAT-specific results measures and explore means to collect them.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Small Business/Self-Employed Division ATAT Collection Program effectively and efficiently collects tax assessments and penalties imposed against promoters and/or participants of ATATs.¹ During the review, we relied on data from the Audit Information Management System, the Integrated Collection System, and the Taxpayer Service and Return Processing Categorization file. We evaluated the reasonableness of the data through comparison with selected information from the Integrated Data Retrieval System. We determined that the data were sufficiently reliable to meet our objective. To accomplish the objective, we:

- I. Determined whether the Collection function's early intervention activities with the Examination function are utilized to assist in the identification of assets and income sources.
 - A. Identified Collection and Examination function management expectations for use of early intervention in promoter investigations.
 - B. From the Integrated Collection System, selected a random sample of 30 of 322 promoter cases pending in the Collection function during the period May 1, 2007, through April 30, 2008. We evaluated the collection case history to determine whether the Collection function was involved in an early intervention. We used a random sample to ensure that each case had an equal chance of being selected, which enabled us to obtain sufficient evidence to support our results.
 - C. Identified 742 active promoter investigations from an IRS Lead Development Center list of active promoter investigations as of June 14, 2007. We determined collection case assignment for the active promoter investigations based on comparison of open and closed case information from the Integrated Collection System as of January 16, 2009. We chose this list to evaluate assignments due to the varying length of time required to conduct promoter investigations.
- II. Determined whether high-priority cases with unpaid ATAT-related assessments are appropriately assigned for collection.
 - A. Discussed with Collection function management case assignment practices and methodologies used to assign collection priority to ATAT cases.

¹ See Appendix IV for a glossary of terms.



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- B. Determined whether case assignment practices are effective to ensure that ATAT cases receive appropriate collection priority and case action.
1. Discussed with ATAT Collection coordinators activities relating to coordination efforts among the Collection function and other IRS functions, case identification and transition from assessment to collection assignment, and assessment of case collection priority.
 2. Identified guidance provided to examiners for seeking Collection function input.
- C. Determined whether alternative case identification methods are effectively utilized for case assignments.
1. From the Lead Development Center, obtained a list of promoter penalties assessed through November 30, 2008. We evaluated the collection assignments for all 129 promoter penalties assessed for the period of May 1, 2007, through April 30, 2008. We selected this time period to evaluate the effectiveness of current processes.
 2. Reviewed a quarterly list of cases closed by the Examination function (referred to as a Status 90 listing) as of July 30, 2008. For the 2 Area Offices selected for our onsite visitations, we reviewed all 59 taxpayers who had total assessed balances over \$100,000 totaling approximately \$69.6 million.² We evaluated whether the cases were assigned for collection. We selected this date to evaluate current case assignment practices. We limited the analysis to the two Area Offices as we believed that was sufficient to meet the needs of our testing.
 3. From Audit Information Management System data, identified cases closed by the Examination function during Fiscal Year 2007 which contained ATAT project codes. We selected this time period to identify current trends in the case assignment practices.
 - a. Compared cases identified with the Taxpayer Service and Return Processing Categorization file to determine collection status and amounts owed as of June 30, 2008.
 - b. Compared cases identified with Integrated Collection System data as of January 16, 2009, to identify cases with collection activity to determine trends in Collection function involvement.

² This includes tax, penalty, and interest for all tax periods related to these taxpayers.



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- III. Determined whether the Collection function takes timely and appropriate actions when working ATAT cases.
- A. Discussed with the Collection function the expectations for working ATAT cases and identified applicable quality and time standards for ATAT cases.
 - B. Evaluated the quality and timeliness of case actions taken on a statistically valid sample of 42 of 830 Collection Field function cases closed between May 1, 2007, and April 30, 2008.
 - 1. For the purposes of our testing, we selected our population of cases from the Integrated Collection System entity records. We limited our population to closed cases that were established on the Integrated Collection System after March 31, 2003, contained a collection ATAT sub-case code, involved the collection of a tax delinquent account, and had tax periods associated with the entity record.
 - 2. We developed a statistically valid sampling plan using a 90 percent confidence level, an expected error rate of 20 percent, and a precision of ± 10 percent, which resulted in a minimum sample size of 42 closed cases. A statistically valid sample was taken because we wanted to estimate the number of cases in the population with quality or timeliness issues. However, since our results showed that the overall quality of case actions was acceptable, we chose not to project the results of our review.
- IV. Determined whether performance measures adequately measure the success of the ATAT Collection Program.
- A. Discussed with Collection function management performance indicators required to measure the success of the ATAT Collection Program.
 - B. Determined how IRS management uses and reports the ATAT performance measures.
 - C. Determined management information used to evaluate similar Collection function programs.



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Appendix II

Major Contributors to This Report

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Carl L. Aley, Director
Amy L. Coleman, Audit Manager
Darryl J. Roth, Lead Auditor
Christina M. Dreyer, Senior Auditor
Pillai Sittampalam, Senior Auditor



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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, Small Business/Self-Employed Division SE:S
Director, Collection, Small Business/Self-Employed Division SE:S:C
Director, Examination, Small Business/Self-Employed Division SE:S:E
Director, Collection Policy, Small Business/Self-Employed Division SE:S:C:CP
Director, Planning and Analysis, Small Business/Self-Employed Division SE:S:C:PA
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: Commissioner, Small Business/Self-Employed Division SE:S



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Appendix IV

Glossary of Terms

Abusive Tax Avoidance Transactions – Transactions or schemes that reduce tax liability by taking a tax position that is not supported by the Internal Revenue Code or by manipulating the law in a way that is not consistent with its intent.

Area Office – A geographic organizational level used by IRS business units and offices to help their specific types of taxpayers understand and comply with tax laws and issues.

Audit Information Management System – A computer system used by the Small Business/Self-Employed Division Examination Operations function and others to control returns, input assessments/adjustments to the Master File, and provide management reports.

Collection Field function – The unit in the Area Offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.

Criminal Investigation Division – The IRS division that investigates potential criminal violations of the Internal Revenue Code and related financial crimes.

Early Intervention – An exchange of information or coordination of efforts between the Collection and Examination functions either during the promoter investigation or when a deficiency is assessed and/or a penalty is asserted.

Embedded Quality Program – Embedded Quality is a measurement system for reporting organizational quality performance and is comprised of two distinct systems: Embedded Quality Review System and National Quality Review System. The Embedded Quality Review System provides a structured context for evaluating employee performance. The National Quality Review System provides independent collection review information from which management may draw inferences regarding overall case quality for a given operational segment.

Examination function – The IRS function that examines tax returns to determine whether taxpayers accurately report their tax liabilities.

Integrated Collection System – An information management system designed to improve revenue collections by providing revenue officers access to the most current taxpayer information, while in the field, using laptop computers for quicker case resolution and improved customer service.

Integrated Data Retrieval System – IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.



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Lead Development Center – A function within the Small Business/Self-Employed Division that provides for the centralized receipt and development of leads on abusive tax transactions used by promoters and preparers. The Lead Development Center coordinates authorization of civil investigations with the Criminal Investigation Division and with the IRS Office of Chief Counsel on the recommendations for conducting civil investigations. Approved investigations are sent to Compliance field offices where examiners contact the promoter and complete the investigation. There is also a Lead Development Center within the Criminal Investigation Division whose current role is predominantly to research investigative leads provided by the Criminal Investigation Division field offices and fraud referrals that come from the Compliance functions. This audit report refers only to the Lead Development Center in the Small Business/Self-Employed Division.

National Quality Review System – A quality review process that provides independent collection review information from which management may draw inferences regarding overall case quality for a given operational segment.

Participant – Any and all persons who participated in the promotion; purchased a product, service, or have an interest in a promotion; or received any material aid, assistance, or advice with respect to the promotion.

Promoter – A person who organizes or assists in the organization of a partnership, trust, investment plan, or any other entity or arrangement that is to be sold to a third party and is designed to be used or is actually used by that third party in obtaining tax benefits not allowed by the Internal Revenue Code.

Promoter Investigation – An evaluation to decide if the promoter is subject to penalties and injunctive action as a result of his or her involvement in promoting an abusive tax avoidance transaction.

Revenue Officer – An employee in the Collection Field function who attempts to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses (formerly known as service centers) or the Automated Collection System.

Taxpayer Service and Return Processing Categorization file – A part of the Accounts Receivable Dollar Inventory. These files are generated on a quarterly basis from both the Individual Master File and Business Master File. The Individual Master File is the IRS database that maintains transactions or records of individual tax accounts, and the Business Master File is the IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.



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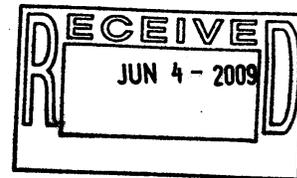
Appendix V

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



June 4, 2009

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Christopher Wagner
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Collection Actions on Abusive Tax
Avoidance Transaction Cases Are Generally Effective, but
Measures to Evaluate Performance Results are Needed
(Audit No. 200830021)

Thank you for the opportunity to review the draft report titled "Collection Actions on Abusive Tax Avoidance Transaction Cases Are Generally Effective, but Measures to Evaluate Performance Results are Needed." We appreciate your acknowledgement of the effectiveness of the IRS Collection Abusive Tax Avoidance Transaction (ATAT) program, both in terms of ATAT collection casework, and when Collection provides assistance to Examination functions in their execution of IRS abusive transaction strategies. The conclusions of your report are paralleled by our internal program reviews.

We agree with the recommendation of your report that the IRS should develop performance measures to better assess the success of the ATAT Collection Program. As you note, the IRS has already initiated research to better determine sources of ATAT Collection Program inventory to augment our existing resource allocation indicators. In response to your recommendation the IRS will expand our current metrics improvement efforts in order to determine a means to segregate ATAT Collection Program inventory program results from general program outcomes. We will also identify desirable outcome measures unique to the ATAT Collection Program, and attempt to determine systemic means of collecting that data.

Attached is a detailed response outlining our corrective actions. If you have any questions, please call me at (202) 622-0600 or Laura Hostelley, Acting Director, Collection Policy, Small Business/Self-Employed Division at (202) 283-1555.

Attachment



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Attachment

RECOMMENDATION 1:

The Director, Collection, Small Business/Self-Employed Division, should ensure that program performance measures are developed to assess the success of the ATAT Collection Program.

CORRECTIVE ACTIONS:

The Director, Collection Policy and Director, Collection Planning and Analysis will collaborate to identify appropriate ATAT Collection Program outcome measures that can be segregated from existing data collection programs. They will also identify Collection ATAT-specific results measures and explore means to collect them.

IMPLEMENTATION DATE:

September 15, 2012

RESPONSIBLE OFFICIAL:

Director, Collection, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

The Director, Collection Policy will monitor the status and notify the Director, Collection of any delays in implementation.