



*Collection Alternatives Were Available to Economically Distressed Taxpayers, but Some New Processes Need Improvement*

**March 15, 2010**

**Reference Number: 2010-30-032**

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:**

2(f) = Risk Circumvention of Agency Regulation or Statute



## HIGHLIGHTS

### **COLLECTION ALTERNATIVES WERE AVAILABLE TO ECONOMICALLY DISTRESSED TAXPAYERS, BUT SOME NEW PROCESSES NEED IMPROVEMENT**

## Highlights

### **Final Report issued on March 15, 2010**

Highlights of Report Number: 2010-30-032 to the Internal Revenue Service Chief, Communications and Liaison; Commissioner, Small Business/Self-Employed Division; and, Commissioner, Wage and Investment Division.

### **IMPACT ON TAXPAYERS**

Collection provisions offer many viable alternatives to help resolve taxpayers' balance due accounts. When the economy weakened, the Internal Revenue Service (IRS) proactively implemented or re-emphasized provisions that will help economically distressed taxpayers. However, some of the actions could jeopardize collections and, at times, some taxpayers may have had difficulty identifying the alternatives if they were unfamiliar with IRS resources.

### **WHY TIGTA DID THE AUDIT**

The record numbers of homeowners falling behind on mortgage payments and the economy losing jobs at an alarming rate resulted in taxpayers facing financial difficulties which impacted their ability to meet tax obligations. In a January 2009 news release, the IRS highlighted some existing and new alternatives available to taxpayers facing financial challenges due to the declining economy. The objective of this review was to determine whether the IRS effectively implemented provisions identified to assist economically distressed taxpayers having difficulties paying their balance due accounts.

### **WHAT TIGTA FOUND**

New provisions, along with modifications to and re-emphasis of existing procedures, provide many viable alternatives to help resolve taxpayers' balance due accounts. The

provisions were widely communicated to the public and tax preparers through various public media outlets and presentations. In addition, the provisions and procedures were communicated to IRS employees through various channels and in updates to the Internal Revenue Manual.

However, when implementing a new process to allow individual taxpayers an additional payment skip on installment agreements, more payment skips were allowed than initially planned.

In addition, the new payment skip was occurring for taxpayers who were not initially intended to receive the additional flexibility.

Additionally, the IRS added a webpage containing various scenarios to its web site. The scenarios contain options that might be available to help financially distressed taxpayers meet their tax obligations. However, the direct link has not always been present. For example, it was not displayed from the last week of September to the first week of December 2009.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the IRS  
1) revise computer programming to remove the unintended consequences from the processing routine and 2) ensure that the link to the various scenarios remains on the IRS home page and/or the Tax Information for Individuals page until the economy recovers.

In their response to the report, IRS officials agreed with our findings and recommendations. They plan to modify the systemic installment agreement payment skips to allow only 2 in a rolling 12-month period. They have also added a link to the scenarios on the Tax Information for Individuals page and plan to leave it there indefinitely. In addition, they plan to place the link on the IRS home page as often as possible.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

March 15, 2010

**MEMORANDUM FOR** CHIEF, COMMUNICATIONS AND LIAISON  
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 – Collection Alternatives Were Available to  
Economically Distressed Taxpayers, but Some New Processes Need  
Improvement (Audit # 200930037)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) is effectively implementing provisions identified to assist economically distressed taxpayers having difficulties paying their balance due accounts. This review was initiated when the Commissioner announced that IRS employees have flexibility to work with taxpayers impacted by the weak economy. The review addresses the major management challenges of Tax Compliance Initiatives, Providing Quality Taxpayer Service Operations, and Taxpayer Protection and Rights.

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 Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (202) 622-8510.



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## *Background*

The record numbers of homeowners falling behind on mortgage payments and the economy losing jobs at an alarming rate resulted in taxpayers facing financial difficulties that impacted their ability to meet tax obligations. In a news release dated January 6, 2009, the Internal Revenue Service (IRS) highlighted some options available to taxpayers facing financial challenges due to the declining economy. The release quoted the Commissioner as saying: “We want to go the extra mile to help taxpayers, especially those who’ve done the right thing in the past and are facing unusual hardships.”

However, the Commissioner also pointed out that the IRS needs to “ensure that we balance our responsibility to enforce the law with the economic realities facing many American citizens today.” The article went on to point out that:

*On a wide range of situations, IRS employees have the flexibility to work with struggling taxpayers to assist them with their situation. Depending on the circumstances, taxpayers in hardship situations may be able to adjust payments for back taxes, avoid defaulting on payment agreements or possibly defer collection action.*

Taxpayers needing assistance were advised that they need to contact the IRS to discuss what options might be available to help in their specific situation.

This review was performed at the Small Business/Self-Employed Division Headquarters in New Carrollton, Maryland, and the Wage and Investment Division Headquarters in Atlanta, Georgia, during the period July through October 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.



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## *Results of Review*

Overall, the IRS effectively implemented or re-emphasized options that will help economically distressed taxpayers who are now having difficulties paying their balance due accounts. These new provisions, modifications to, and re-emphasis of, existing procedures provide many viable alternatives to help resolve taxpayers' balance due accounts. The provisions were widely communicated to the public through various public media outlets and presentations at the National Tax Forums that provide education to tax preparers. In addition, the provisions and procedures were communicated to IRS employees through various channels and in updates to the Internal Revenue Manual.

However, when the IRS implemented an additional payment skip<sup>1</sup> on installment agreements, the revised programming provided more skips than initially planned. In addition, the IRS posted a link on its home page that directed taxpayers to information scenarios designed to answer questions about how to meet their tax obligations when they are financially distressed. However, the link has not always been present. For example, the link was not present from the last week of September to the first week of December 2009, making the scenarios more difficult to locate during those 2 months.

### ***Collection Procedures Are Available to Assist Taxpayers Facing Financial Difficulties***

Previously existing alternatives and procedures provided flexibility based on the taxpayer's financial condition. For example, other than obtaining an immediate full payment for balance due accounts, the IRS had the ability to accept installment agreements and Offers in Compromise, or the IRS could determine that the balance due was currently not collectible.

Late in Calendar Year 2008, the IRS took a proactive approach and established teams<sup>2</sup> to consider what additional actions could be taken to assist taxpayers. The proposed changes and actions of the teams were summarized in the Economic Challenges Action Plan. The teams were assigned responsibility to research proposed actions and implement those actions that were determined to be feasible. One criterion was that the actions needed to be implemented quickly.

The IRS ensured that taxpayers, tax preparers, and its employees were aware of the new and existing collection alternatives. The collection alternatives were widely communicated to the public through various public media outlets, presented to tax preparers at the National Tax

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<sup>1</sup> See Appendix V for a glossary of the terms.

<sup>2</sup> These teams were composed of employees primarily from the Small Business/Self-Employed and Wage and Investment Divisions.



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Forums, and communicated to IRS employees through various channels and updates to the Internal Revenue Manual.

One major effort to communicate the efforts was a news release dated January 6, 2009. In it, the IRS highlighted examples of actions it can take to help taxpayers that might be affected by the economic downturn. All actions highlighted in the news release were implemented by February 9, 2009. These actions included:

- **Added flexibility for missed payments:** When a taxpayer misses a scheduled payment on an installment agreement, the IRS previously allowed 30 days to pass before defaulting (terminating) the installment agreement. This provision delays the default of the installment agreement if the taxpayer was a few days late submitting the payment or if the payment was delayed in the mail. To provide additional flexibility for individuals, the IRS added a 30-day delay before starting the default process. In addition, when the additional delay is initiated, a letter is mailed to the taxpayer explaining the options that might be available to help him or her through the difficult time and encouraging the taxpayer to call the IRS to discuss the situation.
- **Additional review of home values on Offer in Compromise cases:** When reviewing a taxpayer's Offer in Compromise proposal, the IRS considers the taxpayer's equity in assets, including equity in a home, along with other financial conditions. A taxpayer's equity in real property can be a barrier to an Offer in Compromise being accepted. With the uncertainty of home values during the economic downturn, the IRS established an additional independent review of the home value information that is used during the Offer in Compromise process when the home value is the sole issue in the proposed rejection of the offer.<sup>3</sup>
- **Postponement of collection actions:** When a balance due is below a specified dollar amount (tolerance), the IRS has historically had procedures to close cases as currently not collectible without conducting a complete financial verification. This practice postpones certain collection actions on the case. However, the tolerance amount was different depending on which organization within the Collection function was working the case. The IRS revised the tolerance amount so that it is now consistent between the various organizations.
- **Prevention of Offer in Compromise defaults:** When a taxpayer misses a scheduled payment agreed to in his or her Offer in Compromise, the IRS sends a letter reminding the taxpayer of the payment and warning that the offer will be defaulted and the original tax re-instated if payment is not made. A phone number is provided for the taxpayer to

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<sup>3</sup> As of July 2009, only seven taxpayers qualified for this new independent review. We were advised that it appears that the cases that might meet the additional review criteria are getting closer scrutiny within the group working the proposed offer and resolved at that level. These cases would not need to be referred for the additional review.



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call if he or she has any questions. Additional wording was added to this letter to include an explanation of some options that might be available to the taxpayer. These options were historically available, but were not previously spelled out in the default notice. The options include requesting an extension of time to pay or a change in terms on the original offer.

- **Expedited levy releases:** When a levy imposes an economic hardship on a taxpayer, the taxpayer has historically been able to request expedited release of the levy. For Collection function employees responding to taxpayers via telephone, this is accomplished by faxing the release to the applicable party. This procedure was included in the news release, along with instructions to taxpayers about how to request the expedited release and what information they should have available before calling the IRS.

While not highlighted in the January 6, 2009, news release, the Economic Challenges Action Plan included additional collection alternatives that can assist taxpayers facing financial difficulties. These additional actions included:

- **Reasonable cause penalty abatement:** The IRS has had the authority to abate certain penalties when there was a reasonable cause. One example includes a lack of funds, but only when the taxpayer can demonstrate the lack of funds occurred despite exercising ordinary business care and prudence. An internal communication was posted on May 4, 2009, reminding employees of these procedures.
- **Notice of Federal Tax Lien discharge or subordination:** The IRS had procedures in place to cover these actions, which help taxpayers who are trying to refinance their loans or sell property. A news release was issued on the topic on December 16, 2008.
- **Offer in Compromise low-income determinations:** Previously, procedures required that any Offer in Compromise received without the Income Certification for Offer in Compromise Application Fee and Payment (Form 656-A) or the required payments<sup>4</sup> be returned to the taxpayer as not processible. Procedures were changed to allow the review of the Collection Information Statement (Form 433-A) to determine if the taxpayer qualifies for the low-income waiver.<sup>5</sup> If the waiver applies, the IRS is allowed to continue reviewing the offer. An internal guidance memo containing these instructions was issued on February 2, 2009.
- **Partial Payment Installment Agreements in Offer in Compromise cases:** When agreement on an Offer in Compromise cannot be reached, IRS procedures require that other alternative resolutions be discussed with the taxpayer. One of the alternatives is a

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<sup>4</sup> Required payments can include the application fee, the down payment required with lump sum cash offers, and/or the immediate installment payment with periodic payment offers.

<sup>5</sup> Those taxpayers qualifying for the low-income waiver are not required to submit the payments mentioned above for their offer to be considered.



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Partial Payment Installment Agreement. A training presentation was developed to be given to employees making offer determinations that re-emphasized the need to consider a Partial Payment Installment Agreement as a collection alternative when an offer agreement is not reached.

Additional actions were considered but not immediately implemented for various reasons. These actions will be worked separately, be put on hold, or not be pursued. Some of these required changes to computer applications where the reprogramming would require significant time to implement or legislative change. For example, one item considered was elimination of the 20-percent down payment that is required with lump-sum cash Offers in Compromise. This would have applied to all taxpayers, not just those meeting the low-income waiver previously mentioned. However, this requires legislative change which could not be accomplished in the short term.

***More Installment Agreement Payment Skips Are Allowed Than Initially Planned***

Previously existing IRS programming allowed for 1 skipped payment (30-day delay) before an installment agreement would be defaulted. The Economic Challenges Action Plan provided for 1 additional 30-day skip per calendar year in addition to the previously existing 30-day skip, for a total of 2 skipped payments, or 60 days. The IRS modified its processing routine to automatically allow taxpayers the additional payment skip before the installment agreement defaulted.

The modification also included placing a code on the taxpayer's account to track those that received the additional payment skip. Our analysis of this code showed that between January 31, 2009, and July 18, 2009, a total of 615,197 taxpayers \*\*\*\*\*2(f)\*\*\*\*\*  
\*\*\*\*\*2(f)\*\*\*\*\*received the additional payment skip. However, \*\*\*2(f)\*\*\*\*\*  
\*\*\*2(f)\*\*4,800 \*\*\*2(f)\*\*\* taxpayers and \*\*\*2(f)\*\*\*\*\* received more than 1 additional payment skip during this 6-month period. If taxpayers remain in installment agreement status, allowing the additional 30-day skip multiple times could eventually jeopardize collection of the balance due by the Collection Statute Expiration Date.

After we advised IRS management that the program was allowing multiple additional payment skips, they reviewed a sample of 31 cases to determine why the taxpayer received multiple additional skips.

- In 11 cases, employees accessing the installment agreement record manually reset the skip indicator to the initial setting.
- In 13 cases, the skip indicator was reset to the initial setting by the system because the installment agreement was revised. A revision could occur when the taxpayer requests to



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change the monthly payment amount or requests that the payment be due on a different day of the month.

- In 7 cases, the taxpayer had defaulted on the installment agreement that had the first additional skip, and then the taxpayer entered into a new installment agreement. When the new installment agreement is entered to the system, the skip indicator can either be set to allow skips or not. In these cases, the skip indicator was set to allow skips and the additional skip was allowed when the taxpayer missed a scheduled payment on the new agreement.

IRS management also determined that 24 (77 percent) of the 31 taxpayers that received the multiple additional payment skips subsequently defaulted on their installment agreement. In addition, 17 (85 percent) of the 20 taxpayers who received an additional skip and negotiated a new or revised installment agreement subsequently defaulted on it.

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## **Recommendation**

**Recommendation 1:** The Director, Compliance, Wage and Investment Division, should submit a request to revise the computer programming to allow taxpayers only 1 additional automatic skip per 12-month period and \*\*\*\*\*2(f)\*\*\*\*\*  
\*\*\*2(f)\*\*\*\*\*.

**Management's Response:** IRS management agreed with this recommendation. For individuals, they will modify the systemic installment agreement payment skips to allow only 2 in a rolling 12-month period. They will not allow employees to reset the systemic skip counter and will provide additional guidance to employees on when they can allow a skipped payment beyond the systemic skips. These programming changes are contingent on Modernization and Information Technology Services organization resources and funding. \*\*\*\*\*2(f)\*\*\*\*\*  
\*\*\*2(f)\*\*\*\*\*.

## **A Webpage Explaining Options Available to Financially Distressed Taxpayers Lacked Visibility at Times**

The IRS' web site (IRS.gov) is a major strategic tool that allows the IRS to more efficiently fulfill its mission to help taxpayers understand and meet their tax responsibilities. As a result of the declining economy and in support of its mission, the IRS added a direct link to a "What Ifs of an Economic Downturn" scenarios page on the home page of its web site. However, the link has not always been present. For example, the link was not present from the last week of September 2009 to the first week of December 2009. During those 2 months, links regarding other current topics were present.

The scenarios located by using the link could be extremely valuable to taxpayers during any economic condition, but especially when unemployment rates are as high as they were throughout Calendar Year 2009. The scenarios provide taxpayers with information on the options available to them when facing financial problems. They include topics such as:

- What if I can't pay my taxes?
- What if I can't pay my installment agreement?
- What if I lose my job?
- What if I lose my house to foreclosure?

While the information scenarios remained available on the web site when the direct link was not present, taxpayers might have had difficulty locating them. One option to locate them was for the taxpayer to perform a search by typing in "What If" or a key word for one of the scenarios in



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the search box. Another option was to go to the newsroom page and scroll down to find the link to the information.

There has been considerable publicity around the link and scenarios. The scenarios were referenced in the January 6, 2009, news release, where the IRS announced actions that can assist financially distressed taxpayers, and in other news releases during the year. In addition, during their annual Continuing Professional Education training, Collection function field employees were encouraged to spread the word about the link to the scenarios, such as when assisting taxpayers that walk into the office with questions. However, the link was removed soon after the training sessions were completed and was not present for 2 months.

### ***Recommendation***

**Recommendation 2:** The Chief, Communications and Liaison, in coordination with the Wage and Investment Division, should ensure that the link remains prominently displayed on the IRS home page and/or the Tax Information for Individuals page at least until the economy recovers (unemployment rate drops).

**Management's Response:** IRS management agreed with this recommendation. They will ensure that the link to the "What Ifs' of an Economic Downturn" scenarios page is readily available to taxpayers. Action has already been taken to link the page on the Tax Information for Individuals Page and will remain there indefinitely. Additionally, a link to this page will also be posted on the front page of IRS.gov as often as possible, given other competing priorities for the limited front page space.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to determine whether the IRS is effectively implementing provisions identified to assist economically distressed taxpayers having difficulties paying their balance due accounts. To accomplish our audit objective, we:

- I. Identified what actions were considered to assist economically distressed taxpayers.
  - A. Obtained and reviewed a copy of the Economic Challenges Action Plan used to keep track of the actions considered. This contained a description of each item considered and the status of the item. If the action was implemented, it described what was implemented and the effective date. If the action was not implemented, it showed the reason for not implementing the action.
  - B. Discussed the provisions with responsible analysts, and asked if they were aware of additional provisions being considered.
- II. Determined the effectiveness of communicating the provisions to internal and external stakeholders.
  - A. Reviewed applicable sections of the Internal Revenue Manual that contained the provisions. We also reviewed other interim methods of communication on the provisions issued within the IRS.
  - B. Reviewed copies of reports that contained comments obtained during focus group sessions held during operational reviews.
  - C. Reviewed IRS plans for focus group sessions conducted during the 2009 Tax Forums and attended the sessions at the Tax Forums held in Las Vegas, Nevada; San Diego, California; and Atlanta, Georgia, to observe the types of comments received from the participants.
  - D. Reviewed presentation materials used by presenters for education sessions conducted during the 2009 Tax Forums to determine how the provisions were portrayed to the participants.
  - E. Reviewed information on the provisions as shown in the public media.
- III. Determined how the IRS is monitoring taxpayers assisted through the provisions. We discussed tracking of the provisions with analysts responsible for the provisions and obtained data from the tracking applications.
- IV. Determined the impact that implementing the provisions will have on the IRS.



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- A. Determined the volume of taxpayers potentially affected by the provisions.
1. Obtained Master File<sup>1</sup> data from the Treasury Inspector General for Tax Administration's Data Center Warehouse for the transaction code placed on the taxpayer's entity when the additional 30-day skip was applied to taxpayers that missed a scheduled installment agreement payment. During the period between January 31, 2009, and July 18, 2009, we identified 615,197 taxpayers \*\*\*\*\*2(f)\*\*\*\*\* that received the additional skip. This was the most recent data available at the time of our analysis.
  2. Validated the output results by researching a sample of 40 records \*\*\*2(f)\*\*\*\*\* \*\*\*\*\*2(f)\*\*\*\*\* on the Integrated Data Retrieval System. The data associated with the transaction code matched for all 40 records. In addition, the data were sorted by transaction code date. There were no transaction code dates that preceded the implementation date of the transaction code. We determined that the data were sufficiently reliable to meet our objective.
  3. Analyzed the data to determine the number of taxpayers with more than one additional 30-day skip.
- B. Discussed future workload impact with analysts responsible for implementing the provisions.
- C. Reviewed the provisions to determine if there are inconsistencies between similar programs.

**Internal controls methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined the following internal controls were relevant to our audit objective: the Small Business/Self-Employed Division's policies, procedures, and practices for the various alternative collection actions (e.g., installment agreements and Offers in Compromise).

We evaluated these controls by:

- Reviewing the Economic Challenges Action Plan used to document and control the various flexibility provisions that were considered.

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<sup>1</sup> See Appendix V for a glossary of the terms.



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- Discussing the flexibility provisions with management.
- Researching selected transactions that occurred as a result of the flexibility provisions on the Integrated Data Retrieval System.



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**Appendix II**

*Major Contributors to This Report*

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Lauren W. Bourg, 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 Chief, Communications and Liaison CL  
Deputy Commissioner, Small Business/Self-Employed Division SE:S  
Deputy Commissioner, Wage and Investment Division SE:W  
Director, Office of Communications CL:C  
Director, Collection, Small Business/Self-Employed Division SE:S:C  
Director, Compliance, Wage and Investment Division SE:W:CP  
Director, Collection Policy, Small Business/Self-Employed Division SE:S:C:CP  
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 Liaisons: Commissioner, Small Business/Self-Employed Division SE:S  
Commissioner, Wage and Investment Division SE:W



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**Appendix IV**

*Outcome Measure*

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

**Type and Value of Outcome Measure:**

- Increased Revenue – Potential; **(b) (5) - ACP** (4,800 plus **(b) (5) - ACP**) taxpayer accounts affected (see page 5).

**Methodology Used to Measure the Reported Benefit:**

We identified 615,197 taxpayers who had received an additional 30-day payment skip between January 31, 2009, and July 18, 2009. These taxpayers had a payment skip indicator placed on their account during that time period.

A total of 4,800 **(b) (5) - ACP** taxpayers received multiple additional 30-day payment skips during that time period. The initial intent of the policy was that taxpayers would receive only one additional skip.

\*\*\*\*\***(b) (5) - ACP**\*\*\*\*\*  
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Had these taxpayers not received the additional payment skip or multiple additional payment skips, their installment agreements might have defaulted, making their balance due account available for assignment to a Collection function employee to resolve.



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## Appendix V

### *Glossary of Terms*

**Collection Information Statements** – Financial statements used to determine a taxpayer’s financial condition and ability to pay balance due taxes.

**Collection Statute Expiration Date** – The last date of the 10-year period allowed by law on which the IRS can collect delinquent taxes.

**Currently Not Collectible** – A case closing determination based on the taxpayer’s inability to pay or borrow to pay the balance due. The case can be subject to reassignment in the future if certain conditions exist, such as increased income.

**Installment Agreement** – Arrangements by which the IRS allows the taxpayer to pay a balance due over a period of time.

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

**Levy** – A method used by the IRS to collect outstanding taxes from sources such as bank accounts and wages.

**Master File** – The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

**Notice of Federal Tax Lien** – An encumbrance on property or rights to property as security for outstanding taxes.

**Notice of Federal Tax Lien – Discharge** – A process where specified property can be removed from the lien. This option might be used so the taxpayer can sell a piece of property, but the proceeds will not satisfy the lien.

**Notice of Federal Tax Lien – Subordination** – A process where another creditor is moved ahead of the IRS lien priority. This option might be used when the taxpayer is obtaining a loan to help pay taxes owed.

**Offer in Compromise** – An agreement between a taxpayer and the Federal Government to settle a tax liability for less than the full amount owed.

**Partial Payment Installment Agreement** – An installment agreement that the IRS can use when the taxpayer has some ability to pay, but the monthly payment amount will not fully pay the amount owed by the Collection Statute Expiration Date.



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**Payment Skip** – A 30-day period when an installment agreement is put on hold and the IRS will not default it due to the taxpayer missing a scheduled payment.

**Payroll Taxes** – Amounts employers withhold from employees' wages for Federal income taxes, Social Security, and Medicare, as well as the employers' mandatory matching contributions for Social Security and Medicare taxes.



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**Appendix VI**

*Management's Response to the Draft Report*



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

**RECEIVED**  
MAR 05 2010  
BY: *AKS*

FEB 23 2010

MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr. *[Signature]*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Collection Alternatives Were Available to Economically Distressed Taxpayers, but Some New Processes Need Improvement (Audit # 200930037)

I appreciate your acknowledgement of the many efforts the IRS has taken to assist taxpayers negatively impacted by the economic downturn. The IRS Commissioner issued a press release in January 2009, to raise public awareness of the IRS' desire to work with taxpayers to resolve their tax issues. Employees were reminded to remain sensitive to each taxpayer's circumstance and utilize policy and procedures at their disposal to assist taxpayers. Additionally, a cross functional team was formed and quickly made several procedural/systemic changes that provided taxpayers and employees more flexibility in resolving accounts. These changes included:

- 1) Providing the taxpayer an extra systemic missed payment before terminating their Installment Agreement (IA);
- 2) Sending the taxpayer a soft notice after their second missed IA payment encouraging them to contact the IRS if they need to rework the terms of their IA;
- 3) Allowing employees more flexibility in resolving a taxpayer's account without requiring a full financial statement from the taxpayer;
- 4) Reminding employees of hardship and expedite levy release procedures, and directing them to initiate a faxed release wherever possible;
- 5) Providing a second review of real property value for offers in compromise where the accuracy of the real estate valuation is in question;
- 6) Sending a taxpayer who is in potential default of their accepted offer in compromise a letter outlining the options that are available if they are unable to meet the terms of the accepted offer; and



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*Collection Alternatives Were Available to Economically Distressed Taxpayers, but Some New Processes Need Improvement*

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- 7) Allowing an offer in compromise received from a qualifying low income taxpayer to be investigated even if the offer is received without the application fee and/or payment and without a Form 656-A, Income Certification for Offer in Compromise Application Fee and Payment, which is normally required.

I appreciate the time and energy your staff put into reviewing these changes. The review provided us an opportunity to not only reconsider the changes made last year, but to also re-examine processes that have been in place for some time.

We agree with the recommendations contained in your report and have already started coordinating changes based on your recommendations. We also agree, in general, with the outcome measure you outlined in Appendix IV of your report. Attached are our specific comments to your recommendations.

If you have any questions, please contact me, or a member of your staff may contact Denice Vaughan, Director, Filing and Payment Compliance, Wage and Investment Division, at (404) 338-9116.

Attachment



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***Collection Alternatives Were Available to Economically Distressed Taxpayers, but Some New Processes Need Improvement***

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Attachment

**RECOMMENDATION 1**

The Director, Compliance, Wage and Investment Division, should submit a request to revise the computer programming to allow taxpayers only one additional automatic skip per 12-month period and (b) (5)

**CORRECTIVE ACTION**

We agree with this recommendation. For individuals, we will modify the systemic installment agreement payment skips to only allow two in a rolling 12-month period. We will not allow employees to reset the systemic skip counter and will provide additional guidance to employees on when they can allow a skipped payment beyond the systemic skips. These programming changes are contingent on Modernization and Information Technology Services resources and funding. (b) (5)

(b) (5)

**IMPLEMENTATION DATE**

September 15, 2012

**RESPONSIBLE OFFICIALS**

Director, Filing and Payment Compliance, Wage and Investment Division  
Director, Filing and Payment Compliance, Small Business and Self-Employed Division

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 2**

The Chief, Communications and Liaison, in coordination with the Wage and Investment Division, should ensure that the link remains prominently displayed on the IRS home page and/or the Tax Information for Individuals page at least until the economy recovers (unemployment rate drops).

**CORRECTIVE ACTION**

We agree with this recommendation. We will ensure that the link to the "What Ifs" of an Economic Downturn scenarios page is readily available to taxpayers. Action has already been taken to link the page on the Tax Information for Individuals Page and will remain there indefinitely. Additionally, a link to this page will also be posted on the front page of IRS.gov as often as possible, given other competing priorities for the limited front page space.

**IMPLEMENTATION DATE**

Completed

**RESPONSIBLE OFFICIALS**

Chief, Communications and Liaison Division



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*Collection Alternatives Were Available to Economically Distressed Taxpayers, but Some New Processes Need Improvement*

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**CORRECTIVE ACTION MONITORING PLAN**  
N/A