



*Trends in Compliance Activities
Through Fiscal Year 2009*

June 10, 2010

Reference Number: 2010-30-066

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.



HIGHLIGHTS

TRENDS IN COMPLIANCE ACTIVITIES THROUGH FISCAL YEAR 2009

Highlights

Final Report issued on June 10, 2010

Highlights of Reference Number: 2010-30-066 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 each year, and it is included as part of our Fiscal Year (FY) 2010 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives. The overall objective was to provide various statistical information regarding Collection and Examination function activities.

WHAT TIGTA FOUND

The IRS faced many challenges during FY 2009, some of which were due to implementing provisions of new tax legislation, replacing experienced employees who are eligible for retirement, and the continuing impact of the economic downturn. The economic condition was especially apparent in the decreased collection of revenue. However, many other indicators showed mixed or positive results.

The IRS is also facing an increasing number of taxpayers with complex financial holdings, increasing complexity of examinations, growing impact of international tax law issues, and expanding technology skill sets.

The FY 2009 Collection function activities showed mixed results compared to FY 2008.

Some declines may be attributed, at least in part, to the declining economy. The Collection function experienced declines in dollars collected on delinquent accounts, an increase in taxpayers with delinquent accounts assigned to the Queue, including amounts owed on these accounts, as well as an increase in gross accounts receivable. However, FY 2009 showed continued increases in the use of collection enforcement tools and Taxpayer Delinquency Investigations closed due to receipt of delinquent tax returns.

The Examination function hired approximately 2,000 revenue agents and tax compliance officers during the last fiscal year, which was the most hiring performed in the last 5 years. The IRS will not receive an immediate benefit from this hiring, and the Examination function compliance activities showed mixed results in FY 2009. Compared to a slight decrease in FY 2008, the percentage of tax returns examined increased slightly during FY 2009, returning to approximately FY 2007 levels. At the same time, the dollar yield per hour increased for individual tax return examinations performed by tax compliance officers as well as for individual, corporate, and other types of tax return examinations performed by revenue agents.

The IRS is continuing its efforts to improve business processes and workload selection methods because the processes/methods appear to be having a positive impact on compliance efforts. In addition, the hiring and training of new enforcement personnel continues to be a top priority because much of the benefit of recent hiring has yet to be realized.

WHAT TIGTA RECOMMENDED

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



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 10, 2010

MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Trends in Compliance Activities Through
Fiscal Year 2009 (Audit # 201030012)

This report presents the results of our review to provide various statistical information regarding Collection and Examination function activities. We conduct this review each year, and it is included as part of our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

Although we made no recommendations in this report, we did provide IRS officials an opportunity to review the draft report. IRS management did not provide us with any comments on the draft report.

Copies of this report are also being sent to the IRS managers affected by the report results. 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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*Trends in Compliance Activities Through Fiscal
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Abbreviations

| | |
|-------|---|
| ACS | Automated Collection System |
| CFf | Collection Field function |
| FY | Fiscal Year |
| IRS | Internal Revenue Service |
| SFR | Substitute for Return |
| TDA | Taxpayer Delinquent Account |
| TDI | Taxpayer Delinquency Investigation |
| TIGTA | Treasury Inspector General for Tax Administration |



Trends in Compliance Activities Through Fiscal Year 2009

Background

We conduct this review of nationwide compliance statistics for Collection and Examination function activities each year, and it is included in our Fiscal Year (FY) 2010 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives. Our data analyses were performed in the Treasury Inspector General for Tax Administration (TIGTA) Chicago, Illinois, and Philadelphia, Pennsylvania, offices during the period February through March 2010. Nationwide data from Internal Revenue Service (IRS) management information systems were used during our review. Due to time and resource constraints, we did not audit IRS systems to validate the accuracy and reliability of their information. Also, we did not assess internal controls because doing so was not applicable within the context of our objective. Our analyses were limited to identifying changes and trends in IRS data.

Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II. A glossary of terms is included in Appendix IV. Detailed charts and tables referred to in the body of this report are included in Appendix V.

Most of the calculations throughout the report and Appendix V are affected by rounding. All initial calculations were performed using the actual numbers rather than the rounded numbers that appear in the report. Much of the data included in this report updates prior TIGTA reports on compliance trends. Appendix VI presents a list of those reports.



Trends in Compliance Activities Through Fiscal Year 2009

Results of Review

The IRS faced many challenges during FY 2009, some of which were due to the enactment of new tax legislation and the impact of the economic downturn. The IRS is also facing an increasing number of taxpayers with complex financial holdings, increasing complexity of examinations, growing impact of international tax law issues, and expanding technology skill sets. In order to fully plan for future needs, the IRS is in the initial stages of developing, what is hoped to be, a skills assessment process that could be used agency-wide.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (Recovery Act)¹ was enacted. Federal agencies across the country were given the responsibility for distributing billions of dollars of Recovery Act funding to qualified recipients in discretionary and mandatory programs designed to revive the ailing economy and create a more sustainable future. The Recovery Act contained 56 tax provisions: 20 individual taxpayer provisions and 36 business taxpayer provisions.

In addition, the IRS is continuing work to curb the effect of another challenge, which is to replace experienced employees that are eligible for retirement. The FY 2009 budget provided additional funding for enforcement staff. The combined number of Collection and Examination function enforcement personnel² increased by more than 11 percent, from approximately 14,500 at the beginning of FY 2005 to nearly 16,400 at the end of FY 2009. After increasing by 8 percent during FY 2006, staffing decreased by 4 percent during FY 2007 and decreased by less than 1 percent during FY 2008. In FY 2009, the IRS hired more than 2,000 examiners (revenue agents and tax compliance officers), and the number of revenue officers assigned delinquent cases increased by approximately 140. These changes totaled to an approximate 9.6 percent increase in staffing over FY 2008, the largest increase during the past 5 years.

For some time, the total number of tax returns filed and the total dollars the IRS received and collected (gross collections) had increased. The total number of tax returns filed grew by more than 5 percent, from 174 million in Calendar Year 2004 to 184 million in Calendar Year 2008. IRS gross collections grew by 21 percent from \$2.27 trillion in FY 2005 to a record high of \$2.75 trillion in FY 2008.³ However, over the last fiscal year gross collections have fallen by almost 15 percent to \$2.35 trillion. This is the first decrease in total revenue since a 2-year decline from FY 2001 through FY 2003.

¹ Pub. L. No. 111-5, 123 Stat. 115 (2009).

² Collection function and Examination function staff located in field offices, excluding management and overhead staff.

³ See Appendix V, Figure 1.



Trends in Compliance Activities Through Fiscal Year 2009

During FY 2009, enforcement revenue collected decreased by 13 percent from \$56.4 billion to \$48.9 billion.⁴ This amount (not adjusted for inflation) is 3 percent higher than the FY 2005 amount. When releasing the enforcement results for FY 2009, the IRS Deputy Commissioner for Services and Enforcement attributed the higher numbers in FYs 2007 and 2008 to amounts collected from settlements of several major tax shelter cases and other enforcement actions, and also believes that enforcement revenue collections are still at strong levels compared to the past.

In the most recent update, the Government Accountability Office continues to include enforcement of tax laws as 1 of the 30 high-risk areas in the Federal Government.⁵ The Government Accountability Office states that improvements in compliance with tax laws will require efforts by the IRS and Congress. Continued effort to improve compliance is important to reducing the tax gap and maintaining the integrity of the voluntary tax compliance system. In their report, the Government Accountability Office noted that “many experts believe that the tax gap was underestimated in 2001 and has grown larger since then.”

According to a tax gap strategy document, the tax gap for Tax Year 2001 was \$345 billion (\$285 billion from underreporting, \$33 billion from underpaying, and \$27 billion from nonfiling), representing a compliance rate of about 84 percent.⁶ The purpose of the strategy document was to provide a broad base on which to build future efforts to address the tax gap. In August 2007, the IRS released a report that builds on the strategy by providing details about actions planned to reduce the tax gap.⁷ In July 2009, another update on reducing the tax gap summarized what actions were completed and provided a status update on actions in process, including legislative proposals included with the Administration’s FY 2010 budget.⁸

The IRS is continuing to update measures of the tax gap and identify methods to address it. It is conducting annual compliance research studies on individual taxpayers and plans to include studies on other segments of the taxpaying population that should help update tax gap measurements and might lead to improved selection criteria to identify tax returns for examination. A study of the employment tax has been started and a study of corporations is still being considered for the future. In addition, information has been delivered to a private contractor that will be used for a study to estimate the number of, and tax liabilities for, nonfilers.

However, the IRS’ strategy for reducing the tax gap is largely dependent on funding for additional compliance resources and legislative changes. Therefore, long-term success will in large part be dependent on reducing risk factors, some of which are beyond the control of the IRS. One proposal, to add information reporting requirements, is a proven method for increasing

⁴ See Appendix V, Figure 2.

⁵ *HIGH-RISK SERIES – An Update* (GAO-09-271, dated January 2009).

⁶ *A Comprehensive Strategy for Reducing the Tax Gap* (U.S. Department of the Treasury, Office of Tax Policy, dated September 26, 2006).

⁷ *Reducing the Federal Tax Gap – A Report on Improving Voluntary Compliance* (IRS, dated August 2, 2007).

⁸ *Update on Reducing the Federal Tax Gap and Improving Voluntary Compliance* (U.S. Department of the Treasury, dated July 8, 2009).



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compliance. While outside stakeholder groups have expressed concern about the increased burden of additional information reporting requirements, 66 percent of taxpayers surveyed cited information reporting as a factor for reporting and paying taxes honestly.⁹

During FY 2009, the IRS implemented or re-emphasized procedures and processes to allow greater flexibility for dealing with taxpayers that become delinquent with their tax obligations due to current economic conditions. However, the full impact this situation is having on compliance is not known.¹⁰

Collection Function Compliance Activities Showed Mixed Results

Collection function activities had mixed results over the past 5 years. FY 2009 showed continued increases in the use of collection enforcement tools and Taxpayer Delinquency Investigations (TDI) closed due to receipt of delinquent tax returns. However, other results were not as positive and might be attributed, at least in part, to the declining economy.

The number of Collection Field function (CFf) revenue officer personnel working delinquent cases increased nearly 4 percent (to 3,752) during FY 2009.¹¹ Since the start of FY 2005, revenue officer staffing has decreased by almost 1 percent. There are plans to hire about 360 revenue officers during FY 2010, of which 40 are for attrition replacement.

In September 2006, the IRS started assigning balance-due cases to private collection agencies (hereafter referred to as agencies). However, in March 2009, the IRS announced that it decided not to renew the contracts with the agencies. As of August 28, 2009, the IRS had removed all Federal tax information from the agencies' computer systems and work sites.

Due to recent hiring efforts in FY 2009, the IRS anticipates having more flexibility in assigning cases based on the areas of greatest need, rather than filtering limited cases through the agencies.¹² However, these new employees need to be trained and will not have an immediate impact because of the time required to train them and because experienced employees will need to be taken off line during the training period. Additionally, the IRS is planning to add two new Automated Collection System (ACS) sites. During FY 2010, one of the new sites is to become operational and an implementation plan is to be developed for the other site. Based on current case and selection prioritization methods, it is unlikely that the new employees or ACS sites will be assigned many of the types of cases that were worked by the agencies because higher priority

⁹ *IRS Oversight Board 2009 Taxpayer Attitude Survey* (IRS Oversight Board, dated February 2010).

¹⁰ *Collection Alternatives Were Available to Economically Distressed Taxpayers, but Some New Processes Need Improvement* (Reference Number 2010-30-032, dated March 15, 2010).

¹¹ See Appendix V, Figure 6.

¹² *Appropriate Actions Were Taken to Conclude Work on the Private Debt Collection Program* (Reference Number 2010-30-013, dated January 8, 2010).



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cases are normally assigned to ACS and CFf employees. However, the IRS is currently studying ACS case selection and prioritization so different types of cases might be assigned in the future.

The following Collection function operations showed improvement during FY 2009

- While more Taxpayer Delinquent Accounts (TDA) were received than closed, the gap between TDA receipts and TDA closures for FY 2009 narrowed to almost 22 percent (to 1,477,621 accounts).¹³ This is the second straight year that this gap has continued to close, after reaching a high of 1,914,508 accounts during FY 2007.
- The number of TDI tax periods closed because delinquent tax returns were received by the IRS increased by almost 13 percent from FY 2008.¹⁴ This increase was largely driven by an increase in closures by ACS and Compliance Services Collection Operations of almost 17 percent and 20 percent, respectively. Overall, there has been a 52 percent increase since FY 2005.

The following Collection function operations showed mixed results or declined during FY 2009

- The number of TDAs closed (excluding shelved accounts) showed a minimal increase, but the number closed by full payment decreased by about 14 percent from FY 2008.¹⁵ This represents the first decrease in the 5-year period.
- The use of enforcement tools (liens, levies and seizures) showed mixed results. The use of liens has increased by 85 percent during the 5-year period. During FY 2009 alone, the number of liens issued by the CFf and ACS increased by 10 percent and 45 percent, respectively, to a 5-year high.¹⁶

Levies increased by a significant 32 percent during FY 2009, driven mainly by a 37 percent increase in levies issued by the ACS. However, the number of seizures has decreased by 14 percent since reaching a 5-year high in FY 2007.¹⁷

- The amount of gross accounts receivable increased by almost 8 percent (to \$328 billion) in FY 2009, after increasing by 5 percent during FY 2008.¹⁸ The FY 2009 amount represents the 5-year high. It should be noted that this year's increase occurred when there was a decrease in gross collections.

¹³ See Appendix V, Figure 16.

¹⁴ See Appendix V, Figure 15.

¹⁵ See Appendix V, Figures 18 and 19.

¹⁶ See Appendix V, Figure 20.

¹⁷ See Appendix V, Figures 21 and 22.

¹⁸ See Appendix V, Figure 2.

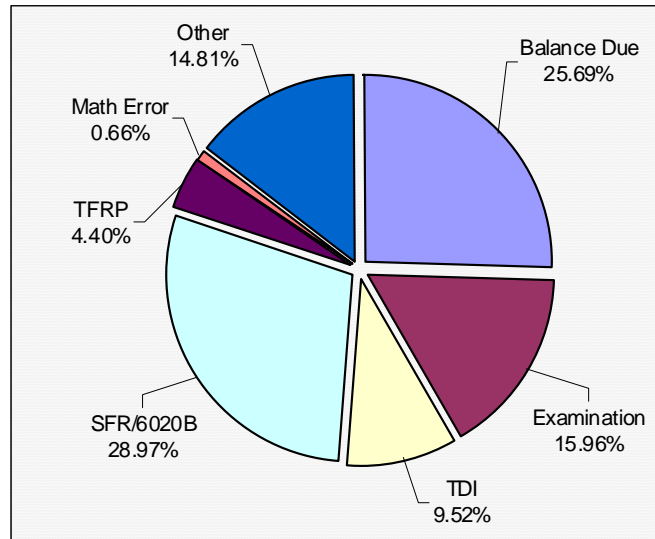


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To show the make up of gross accounts receivable, we obtained the amount by source of assessment. This is illustrated in Figure 1 as percentages of the total amount as of the end of FY 2009. IRS records show that over the last 5 years these percentages have not materially changed except for an increase in the Substitute for Return (SFR)/6020(b) return category as additional emphasis was placed on the program.¹⁹

- The average amount collected per CFf staff year on TDAs decreased by approximately 14 percent from FY 2008. FY 2009 also showed a nearly 23 percent decrease (to \$446,561) from the 5-year high in FY 2005 of \$576,777.²⁰
- Dollars collected on TDAs by ACS and CFf employees totaled approximately \$5.5 billion, a decrease of 2 percent from FY 2008, and a decrease of nearly 14 percent from a high of \$6.3 billion in FY 2007.²¹ This year's amount is the lowest in the last 5 years.

Figure 1: FY 2009 Percentage of Accounts Receivable by Source of Assessment



Source: TIGTA analysis of data received from the Office of the Chief Financial Officer. TFRP = Trust Fund Recovery Penalty.

Figure 2 shows that both the ACS and CFf made the majority of FY 2009 collections within the first year of receipt of the case within the function. This percentage of collections during the first year and after the first year has been a consistent trend over the past 5 years.²²

¹⁹ See Appendix V, Figure 3.

²⁰ See Appendix V, Figure 7.

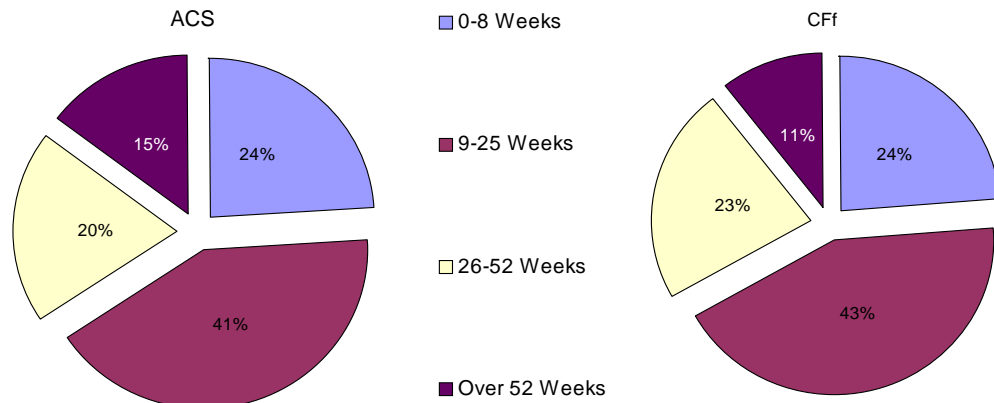
²¹ See Appendix V, Figure 8.

²² See Appendix V, Figure 9 and Figure 10.



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Figure 2: Percentage of Dollars Collected by Number of Weeks the TDA was Assigned to the ACS and CFf



Source: IRS Collection Report 5000-2. Percentages do not equal 100% due to rounding.

An inventory of unassigned collection cases is maintained in the Queue. The number of taxpayers with TDAs in the Queue and the amount owed on these accounts increased to 5-year highs during FY 2009. The number of taxpayer accounts increased to 1,109,057, approximately 13 percent more than FY 2008 numbers. At the same time, the amount owed increased by 6 percent to \$45.9 billion. The number of taxpayers with TDIs also increased to 887,985, an increase of 4 percent from FY 2008.²³ Although many of the cases in the Queue might be assigned to be worked, a significant number might never receive additional contact to resolve the delinquency.²⁴

Although the Queue inventory includes a substantial number of taxpayer accounts, its inventory figures do not include the millions of TDA and TDI tax periods shelved or surveyed (removed) from Collection function inventory during the last few years. In FY 2005 through FY 2009, the IRS removed more than 4 million TDAs²⁵ (with balance-due amounts totaling \$18.8 billion) and 7.2 million TDI tax periods from Collection function inventory. These cases were removed because they were potentially less productive than other available inventory and might never receive additional contact to resolve the delinquency.

²³ See Appendix V, Figures 11 and 17.

²⁴ Before accounts get assigned to the Queue, the IRS has already sent notices to the taxpayer about the delinquency. After the notice process, some cases go directly to the Queue while others are worked in the ACS and may have received enforcement action such as a lien or levy.

²⁵ See Appendix V, Figure 12.



Trends in Compliance Activities Through Fiscal Year 2009

The Collection function is unable to work all of the existing accounts in the Queue with current staffing, and the number of TDA receipts is outpacing closures. If changes do not occur, a significant number of cases will continue to not receive additional contact to resolve the delinquency. This reinforces the need for additional resources to work the cases.

Examination Function Compliance Activities Also Showed Mixed Results

A continued effort to increase examination coverage is important to maintaining the effectiveness of the voluntary tax compliance system. The IRS Oversight Board studies of taxpayer attitudes showed that a larger percentage (13 percent) of taxpayers believed that it was acceptable to cheat on their income taxes in Calendar Year 2009 than did in Calendar Year 2008 (9 percent). Fear of examination is a major factor influencing taxpayers to report taxes honestly. In Calendar Year 2008, 59 percent of taxpayers surveyed cited fear of examination as a factor that influenced their voluntary compliance. This increased to 63 percent in Calendar Year 2009 and is the largest percentage over the past 5 years.

As of the end of FY 2009, the total number of field Examination function personnel who conduct examinations of tax returns increased by more than 11 percent compared to FY 2008. The number of revenue agents increased to 11,238, while the number of tax compliance officers increased to 1,267.²⁶ The number of examiners in field offices²⁷ has increased by about 17 percent since FY 2005.

The Examination function hired approximately 2,000 revenue agents and tax compliance officers during FY 2009. This is the most hiring for these positions during the 5-year period. In addition, the Small Business/Self-Employed Division plans to hire almost 900 revenue agents and tax compliance officers during FY 2010. However, the IRS will not immediately realize an increase in productivity from these new hires because of the time required to train them and because experienced examiners will need to be used as training coaches and classroom instructors, which reduces their availability to conduct examinations. The Examination function also continues to study methods that will result in identifying for examination those tax returns that contain greater potential for noncompliance.

With the increase in staffing levels since FY 2008, Examination function compliance activities showed some slight increases in a few areas but remained at approximately FY 2008 levels in other areas. After decreasing slightly in FY 2008, the percentage of tax returns examined increased slightly during FY 2009, returning approximately to FY 2007 levels. At the same time, the dollar yield per hour increased for individual tax return examinations performed by tax

²⁶ See Appendix V, Figure 23.

²⁷ Examiners in field offices include revenue agents, tax compliance officers, tax examiners, and revenue officer examiners.



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compliance officers as well as for individual, corporate, and other types of tax return examinations performed by revenue agents.²⁸

Overall, the number of tax returns examined increased, but most examinations were conducted via correspondence

When analyzing examination coverage rates, it is important to recognize differences in the types of contacts that are counted in Examination function statistics. Examinations range from issuance of an IRS notice asking for clarification of a single tax return item that appears to be incorrect (correspondence examination) to a face-to-face interview and review of the taxpayer's records. Face-to-face examinations are generally more comprehensive and time consuming for the IRS and the taxpayers, and they typically result in higher dollar adjustments to the tax amounts. Thus, caution should be used when combining statistics from the various Examination function programs into overall examination rates. During FY 2009, approximately 71 percent of all examinations were conducted via correspondence.

In addition to conducting examinations, the IRS uses several computer-matching and automated error-checking routines to check the accuracy of tax returns.²⁹ These routines often identify adjustments to tax liabilities. However, these adjustments are not included in the traditional "audit rates" and are not generally reported separately as enforcement efforts.

The overall percentage of tax returns examined (including face-to-face and correspondence examinations) increased by 2 percent³⁰ from FY 2008 and has returned approximately to

FY 2007 levels. The overall percentage of tax returns examined has also increased by 14 percent since FY 2005.

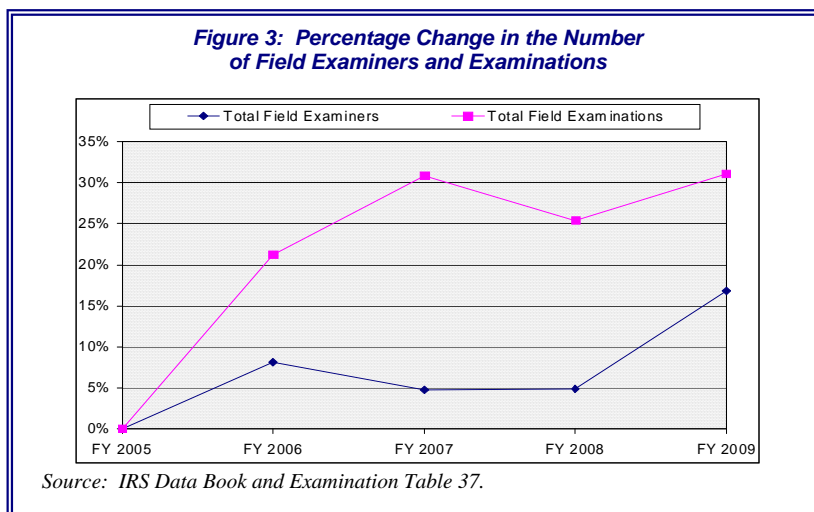


Figure 3 compares the change in field Examination function staffing to the change in the number of examinations by field employees for all types of tax returns from FY 2005 through FY 2009. As compared to FY 2007 and 2008, Examination function

²⁸ See Appendix V, Figures 25 through 28.

²⁹ See Appendix V, Figures 47 and 48.

³⁰ The IRS has traditionally calculated the percentage of examination coverage by dividing the number of returns examined in the current fiscal year by the number of returns filed in the preceding calendar year.



Trends in Compliance Activities Through Fiscal Year 2009

staffing has increased dramatically due to the previously noted hiring of additional examiners in FY 2009.

Examination rates for the various types of tax returns showed mixed results

The following paragraphs summarize examination coverage for various types of tax returns:

- *Individual Income Tax Examinations* – FY 2005 represented the 5-year low, with only 1,199,035 (1 of every 109) individual income tax returns examined. Since then, the number of tax returns examined has continuously increased and 1,425,888 (1 of every 97) were examined in FY 2009. This is an increase of 19 percent over FY 2005.³¹

During FY 2009, more than 81 percent of the examinations of individuals were performed by correspondence.³² Only 1 of every 524 individual income tax returns filed received a face-to-face examination (an almost 4 percent increase in coverage over FY 2008), while 1 of every 120 received a correspondence examination (a 1 percent increase in coverage over FY 2008).

A TIGTA review performed of Small Business/Self-Employed Division Examination and Campus Compliance Services functions determined that examiners were not always expanding examinations to prior and/or subsequent year tax returns. The IRS could potentially be missing an opportunity to conduct examinations more efficiently and consistently from year to year, and expanding examinations could increase the efficiency of performing examinations. The IRS agreed with our finding and planned to take corrective actions.³³ Once implemented, this action could increase the number of returns examined.

- *Corporate Income Tax Examinations* – The number of corporate income tax returns examined (excluding returns for foreign corporations and S Corporations) decreased by more than 7 percent in FY 2009, after increasing by more than 4 percent and 1 percent, respectively, during FYs 2007 and 2008. However, the number of examinations has decreased by only 3 percent since FY 2005. From FY 2005 through FY 2009, the total number of corporate tax returns examined increased from 28,687 (1 of every 80 returns filed) in FY 2005 to a 5-year high of 29,986 (1 of every 74 returns filed) in FY 2008 and decreased back to 27,834 (1 of every 79 returns filed) in FY 2009.³⁴ The number of

³¹ This includes examinations conducted by employees located in field offices and campuses. See Appendix V, Figures 31 and 32.

³² We computed this percentage using the audit technique to identify whether there was actual face-to-face contact during the examination. This number differs from publicized reports that rely solely on the organizational code.

³³ *Examiners Did Not Always Properly Select the Prior and/or Subsequent Year Tax Returns* (Reference Number 2009-30-034, dated February 13, 2009).

³⁴ See Appendix V, Figures 31, 37, and 38 for coverage by size of corporation.



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corporate income tax returns filed decreased by almost 4 percent during the 5-year period. Because the number of returns filed also decreased, the impact on the examination coverage rate was not material.

The number of corporate tax returns examined with assets of less than \$10 million decreased by 11 percent in FY 2009. During the same period, the number of corporate tax returns examined with assets of \$10 million and greater increased by only 1 percent, but within this category, examinations of returns with assets of \$250 million and greater increased by more than 3 percent.

- *S Corporation Return Examinations* – The number of S Corporation tax returns examined increased by almost 70 percent from FYs 2005 to 2007, decreased by almost 6 percent in FY 2008, and increased by 5 percent in FY 2009. Since FY 2005, the number of S Corporation returns filed has increased by approximately 25 percent. During that period, the number of tax returns examined increased from 1 of every 338 returns filed to 1 of every 252 returns filed.³⁵ The increase in examination coverage through FY 2007 can be partly attributed to the IRS research project studying the compliance of S Corporation entities. The IRS has now updated the selection criteria formulas used to identify these returns for examination.
- *Partnership Return Examinations* – The number of partnership returns examined decreased by approximately 3 percent in FY 2009, but has increased by more than 51 percent since the 5-year low experienced in FY 2005. The number of returns filed increased by approximately 32 percent between FYs 2005 and 2009.³⁶ About 1 of every 300 returns filed was examined in FY 2005. This increased to about 1 of every 261 for FY 2009.
- *Other Tax Type Examinations (Fiduciary, Employment, Excise, Estate, and Gift Taxes)* – After experiencing a decrease of almost 17 percent during FY 2008, the overall number of examinations in these 5 classes increased by almost 8 percent during FY 2009 and was up 42 percent from the 5-year low experienced in FY 2005. The major portion of the FY 2008 decrease was due to a decrease in the number of examinations of excise tax returns, which had spiked in FY 2007. The increase in the overall number of examinations in FY 2009 was led by percentage increases in gift, estate, and fiduciary tax returns of 47, 16, and 15 percent, respectively. The number of employment and excise returns examined also increased, by 6 and 7 percent.³⁷

³⁵ See Appendix V, Figures 31 and 40.

³⁶ See Appendix V, Figures 31 and 41.

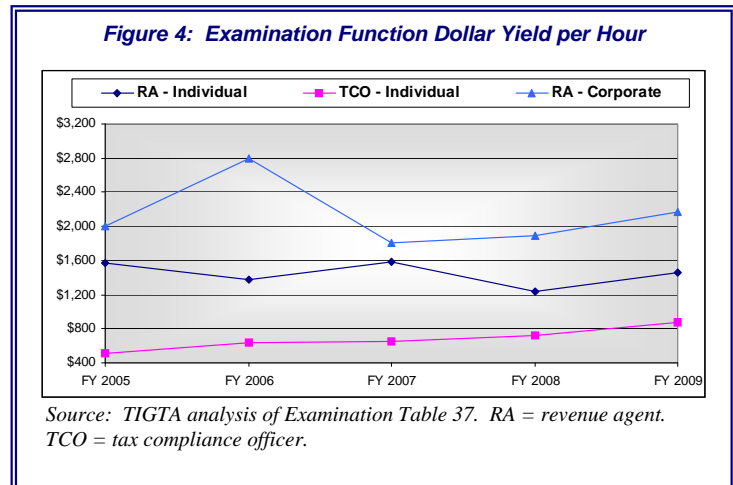
³⁷ See Appendix V, Figures 31 and 42 through 46.



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Many Examination function productivity indicators showed improvements

Figure 4 shows the dollar yield per hour for FYs 2005 through 2009 for revenue agents and tax compliance officers. During FY 2009, the dollar yield per hour for examinations of individual tax returns increased by more than 18 percent for revenue agents and by almost 21 percent for tax compliance officers. The yield increased by almost 15 percent for revenue agent examinations of corporate tax returns during FY 2009. The yield for revenue agent examinations of both individual and corporate tax returns has increased for the first time since FY 2005. Prior to FY 2009, these yields fluctuated in opposite directions from each other.



The Examination function dollar yield per hour for individual income tax return examinations by revenue agents has fluctuated since FY 2005. While the hours per return has varied, the yield fluctuation appears to be largely due to the varied dollar amounts per return over the past 5 years, which have ranged from \$37,523 per return to \$64,958 per return. Dollar yield per hour for individual income tax return examinations by tax compliance officers has increased every year over the past 5 years, due to a consistent increase in dollars per return.

The dollar yield per hour for corporate tax return examinations increased by 40 percent from FYs 2005 to 2006 and then decreased to below the FY 2005 level for FYs 2007 and 2008. During FY 2009, the dollar yield per hour has increased back above FY 2005 levels, but was still well below the 5-year high from FY 2006. During FYs 2005 to 2009, the hours spent examining each tax return has remained relatively constant. However, the average dollar amounts assessed per return fluctuated, increasing by 55 percent for FY 2006 before decreasing and remaining relatively constant until FY 2009, when it increased by 13 percent from FY 2005 levels.³⁸ The net effect was material variations in the dollar yield per hour for FYs 2005 through 2007, a slight increase in FY 2008, and almost a 15 percent increase in FY 2009.

An IRS research project was conducted of tax returns for individuals to obtain updated information about compliance that could be used to update return selection formulas. The updated formulas for individuals were implemented in January 2007 and IRS data indicate that the no-change rate for individual tax returns examined by revenue agents has decreased from

³⁸ See Appendix V, Figure 26.



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13 to 10 percent (a 23 percent decrease) and decreased from 10 to 9 percent (a 10 percent decrease) for tax compliance officers since FY 2007. The no-change rate results of revenue agent examinations for other types of tax returns varied over the 5-year period.³⁹ As mentioned previously, the IRS continues to conduct studies with the goal of improving the return selection process for other types of tax returns.

Conclusion

The IRS faced many challenges during FY 2009 with the implementation of provisions related to new tax legislation and the downturn in the economy. The economic condition was especially evident in decreased collection of revenue. However, many other indicators showed positive results. The IRS is continuing its efforts to improve the business processes and workload selection methods because the processes/methods appear to be having a positive impact on compliance efforts. In addition, the hiring and training of new enforcement personnel continues to be a top priority because much of the benefit of recent hiring has yet to be fully realized, many experienced employees in those positions will become eligible to retire in the next few years, and the balance due cases are no longer being assigned to agencies.

³⁹ See Appendix V, Figure 29.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective was to provide various statistical information regarding Collection and Examination function activities. We conduct this review each year, and it is included as part of our FY 2010 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

To accomplish our objective, we:

- I. Obtained and analyzed information relating to Compliance activities.
 - A. Obtained and analyzed Collection function data. This included but was not limited to:
 1. Staffing.
 2. Delinquent accounts and unfiled return investigations.
 3. Enforcement actions (liens, levies, and seizures).
 - B. Obtained and analyzed Examination function data. This included but was not limited to:
 1. Staffing.
 2. Examinations of individual and business tax returns compared to the number of returns filed for each type of return.
 3. Productivity results for individual and business tax returns.
 - C. Obtained and analyzed other Compliance-related data. This included but was not limited to:
 1. Enforcement revenue.
 2. Gross collections and accounts receivable.
 3. Math Error, Underreporter, and Automated Substitute for Return cases.
 - D. Reviewed applicable TIGTA and Government Accountability Office reports for relevant information.
 - E. Obtained information regarding aberrations in the data from applicable IRS personnel and documents.



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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 did not assess internal controls because doing so was not applicable within the context of our objective. Our analyses were limited to identifying changes and trends in data prepared and reported by the IRS.



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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
Glen J. Rhoades, Audit Manager
Darryl J. Roth, Acting Audit Manager
Joseph P. Snyder, Lead Auditor
Jeffrey K. Jones, Senior Auditor
Curtis J. Kirschner, Senior Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Commissioner, Large and Mid-Size Business Division SE:LM
Commissioner, Small Business/Self-Employed Division SE:S
Commissioner, Wage and Investment Division SE:W
Deputy Commissioner, Large and Mid-Size Business Division SE:LM
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
Director, Office of Research, Analysis, and Statistics RAS
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, Large and Mid-Size Business Division SE:LM
 Commissioner, Small Business/Self-Employed Division SE:S
 Commissioner, Wage and Investment Division SE:W



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Appendix IV

Glossary of Terms

Automated Collection System – A telephone contact system through which telephone assistants collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.

Automated Substitute for Return System – A system designed to assess taxes on wage earners who fail to file tax returns. It analyzes information submitted to the IRS and historical tax return information.

Balance Sheet – A statement of the financial assets and liabilities of a business at a given date filed with a corporate income tax return. It is used by the IRS to group businesses by asset size.

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.

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

Compliance Services Collection Operations – An IRS function that mails the balance-due and return-delinquency notices to taxpayers and analyzes and responds to taxpayer correspondence. This function was formerly known as the Service Center Collection Branch.

Computing Centers – IRS facilities that support tax processing and information management through a data processing and telecommunications infrastructure.

Coordinated Industry Case – An Examination function classification used for the largest and most complex corporations.

Corporate Income Tax Return – U.S. Corporation Income Tax Return (Form 1120). It is used by corporations to report the corporate income tax.

Dollar Yield per Hour – The amount of tax adjustments on tax returns divided by the number of hours spent examining those returns.

Employment Tax Returns – Various Form 94X return series (primarily Employer's Annual Federal Unemployment (FUTA) Tax Return (Form 940) and Employer's QUARTERLY Federal Tax Return (Form 941)) filed by businesses to report things such as employer's Federal unemployment taxes and Federal taxes withheld.

Enforcement Revenue – Any tax, penalty, or interest received from a taxpayer as a result of an IRS enforcement action (usually an examination or a collection action).



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Estate Tax Return – United States Estate (and Generation-Skipping Transfer) Tax Return (Form 706). It is filed for estates of certain deceased persons.

Examination (Face-to-Face) – Field examinations of individuals, partnerships, or corporations that occur either at the taxpayer's place of business or through interviews at an IRS office.

Excise Tax Return – Quarterly Federal Excise Tax Return (Form 720) is used to report and pay certain taxes, such as those on transportation and fuel.

Fiduciary Income Tax Returns – Income tax returns filed for estates and trusts.

Gift Tax Return – United States Gift (and Generation-Skipping Transfer) Tax Return (Form 709) is used to report transfers subject to the Federal gift taxes and to calculate the taxes due on those transfers.

Gross Accounts Receivable – Includes all unpaid tax, with accrued penalties and interest, on taxpayers' delinquent accounts.

Individual Income Tax Returns – U.S. Individual Income Tax Returns (Form 1040 series) are annual income tax returns filed by citizens or residents of the United States.

IRS Data Book – Provides information on returns filed and taxes collected, enforcement, taxpayer assistance, the IRS budget and workforce, and other selected activities.

IRS Oversight Board – A nine-member independent body charged to oversee the IRS in its administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws and provide experience, independence, and stability to the IRS so it may move forward in a cogent, focused direction.

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

Lien – An encumbrance on property or rights to property as security for outstanding taxes.

Math Error Program – A process in which the IRS contacts taxpayers through the mail or by telephone when it identifies mathematical errors or mismatches of taxpayer information that would result in tax changes.

No-Change Rate – Percentage of examinations where the examiner closed the case with no recommended tax change.

Overhead Staff – Support staff performing indirect duties within the function such as automation support, technical support, and quality review.

Partnership Return – U.S. Return of Partnership Income (Form 1065) is used to report the income and expenses of domestic partnerships and the share distributed to each partner.



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Queue – An automated holding file for unassigned inventory of delinquent cases for which the Collection function does not have enough resources to immediately assign the cases for contact.

Revenue Agent – An employee in the Examination function who conducts face-to-face examinations of more complex tax returns such as businesses, partnerships, corporations, and specialty taxes (e.g., excise tax returns).

Revenue Officer – An employee in the CFF who attempts to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses or the ACS.

Revenue Officer Examiner – A revenue officer who has been trained to conduct examinations of employment tax returns.

S Corporation Tax Return – U.S. Income Tax Return for an S Corporation (Form 1120S) is filed by qualifying small business corporations and includes amounts distributed to shareholders.

Seizure – The taking of a taxpayer's property to satisfy his or her outstanding tax liability.

Shelved or Surveyed Cases – Delinquent unpaid accounts or investigations of unfiled tax returns that have been taken out of the Collection function inventory because they are of lower priority than other available inventory.

Substitute for Return/6020(b) Return – Tax returns prepared by the IRS, based on Internal Revenue Code provisions, when taxpayers appear to be liable but have not voluntarily filed the returns.

Tax Compliance Officer/Tax Auditor – An employee in the Examination function that primarily conducts examinations of individual taxpayers through interviews at IRS field offices. The position title was changed in 2002 from tax auditor to tax compliance officer.

Tax Examiner – In the context of this report, an employee located in a field office who conducts examinations through correspondence. However, the tax examiner position is also used for many other types of positions located in various IRS offices.

Tax Gap – The difference between what taxpayers should have paid and what they timely paid.

Tax Period – Refers to each tax return filed by the taxpayer for a specific period (year or quarter) during a calendar year for each type of tax.

Taxpayer Delinquency Investigation – An unfiled tax return(s) for a taxpayer. One TDI exists for all delinquent tax periods for a taxpayer.

Taxpayer Delinquent Account – A balance-due account of a taxpayer. A separate TDA exists for each delinquent tax period.



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Trust Fund Recovery Penalty – When a company does not pay the taxes it withholds from employee wages, such as Social Security or individual income tax, the IRS has the authority to assess all responsible corporate officers individually for the taxes withheld via the Trust Fund Recovery Penalty.

Underreporter Program – A process that matches items reported on an individual’s income tax return to information supplied to the IRS from outside sources (such as employers, banks, and credit unions) to determine if the taxpayer’s tax return reflected the correct amounts and if the tax amount is correct.



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Appendix V

Detailed Charts of Statistical Information

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| Figure 30 – Number of Forms 1040 Examined Face-to-Face or Through Correspondence..... | Page 39 |
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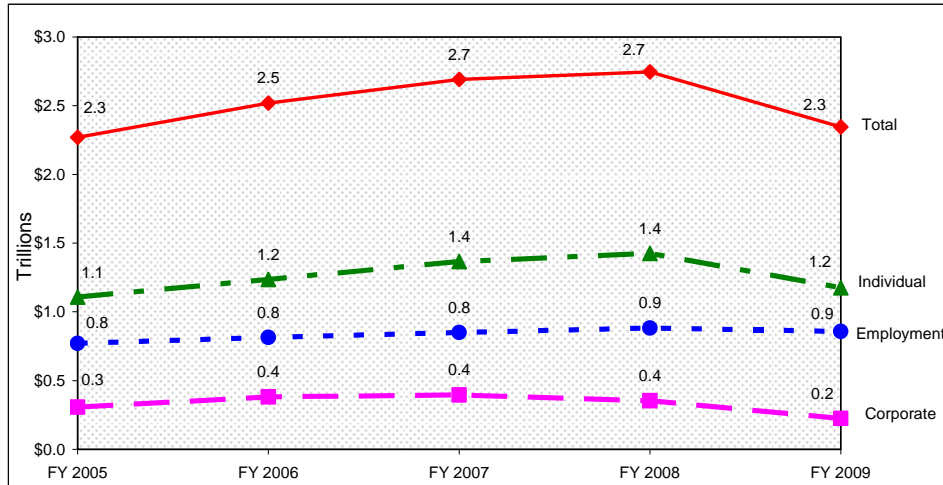
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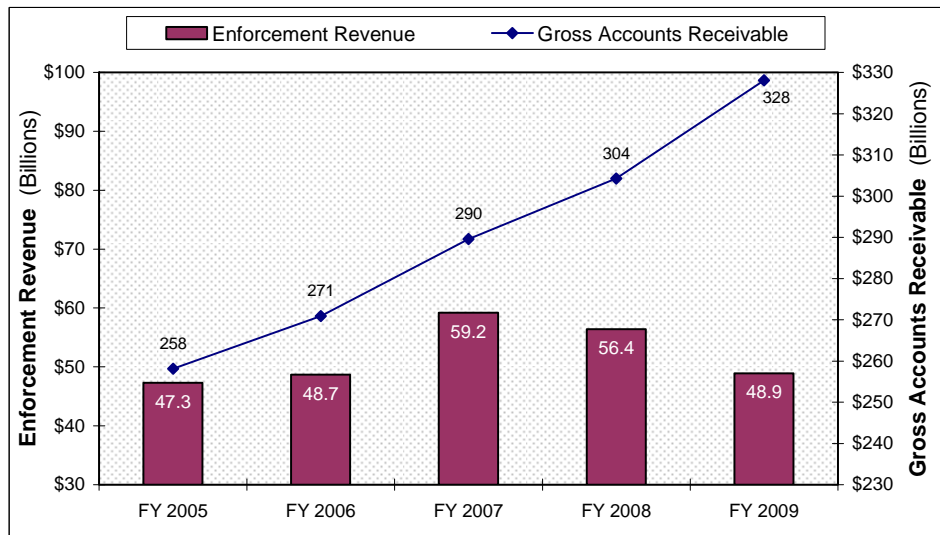
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Figure 1: Gross Collections by Type of Tax ¹



Source: TIGTA analysis of IRS Data Book.

Figure 2: Amount of Enforcement Revenue Collected Compared to Gross Accounts Receivable



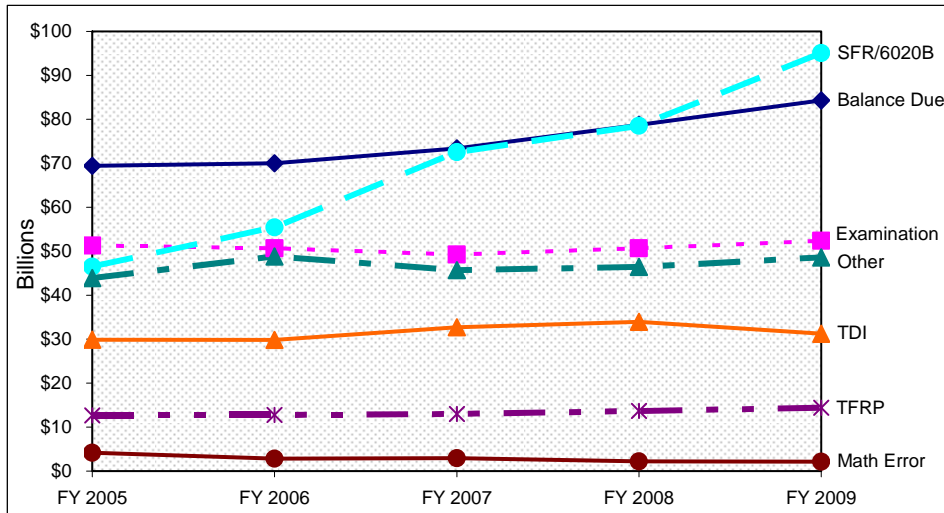
Source: Office of Research, Analysis, and Statistics and Chief Financial Officer information.

¹ Income tax on Estates and Trusts is included in individual income tax in FYs 2005-2008. Beginning with FY 2009, the IRS amended this reporting and Estate and Trust income tax is reported separately. Estate and Trust income tax for FY 2009 equaled approximately \$15 million. The total line includes Excise, Estate, and Gift taxes also, not just Individual, Corporate, and Employment.



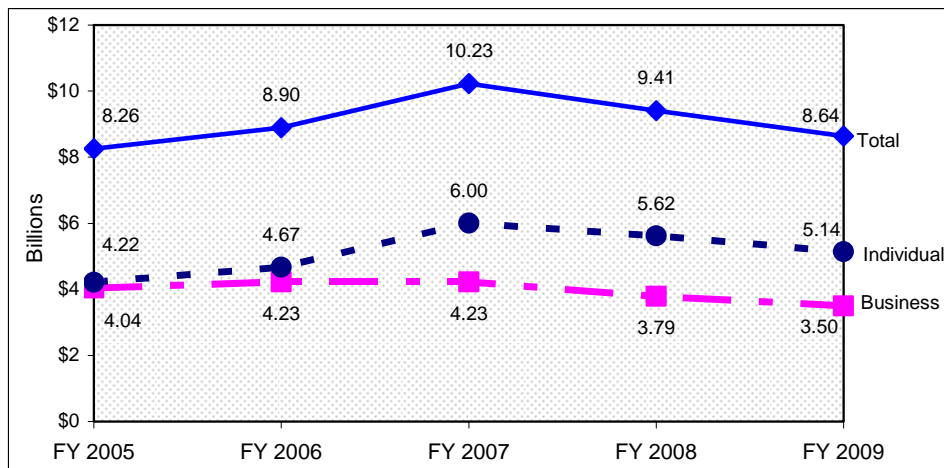
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Figure 3: Gross Accounts Receivable by Source of Assessment²



Source: TIGTA analysis of data received from the Office of the Chief Financial Officer. TFRP = Trust Fund Recovery Penalty.

Figure 4: Total Amount Collected During Notice Status



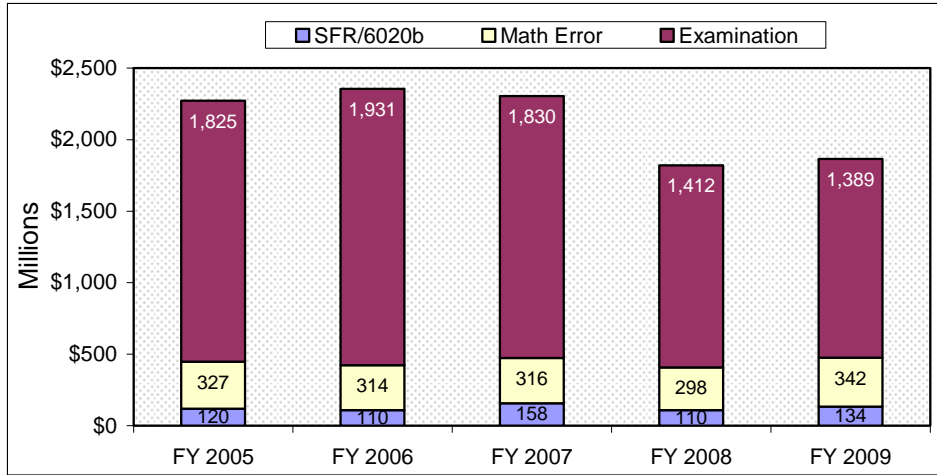
Source: Collection Report 5000-2/242.

² Figure 48 shows an increased use of the Automated SFR Program starting in FY 2006.



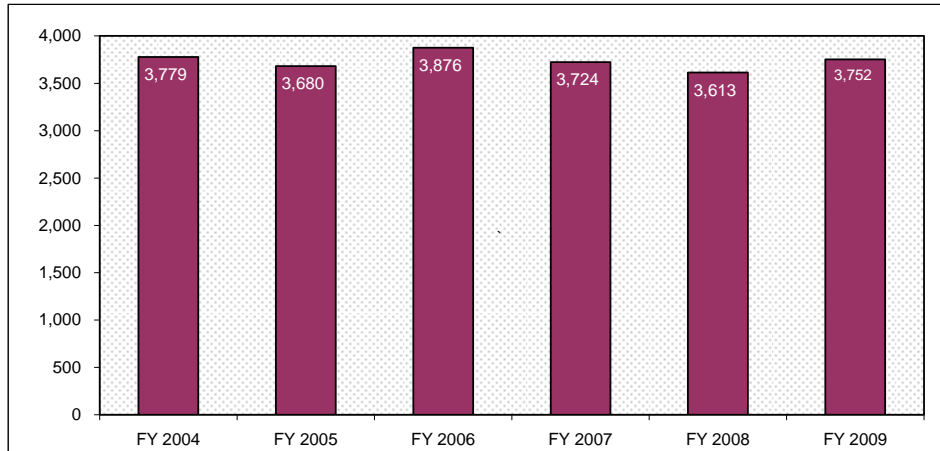
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Figure 5: Amount Collected During Notice Status for Selected Sources of Assessment



Source: Collection Report 5000-2/242.

Figure 6: Number of Cff Revenue Officers Assigned Delinquent Cases at the End of Each Year

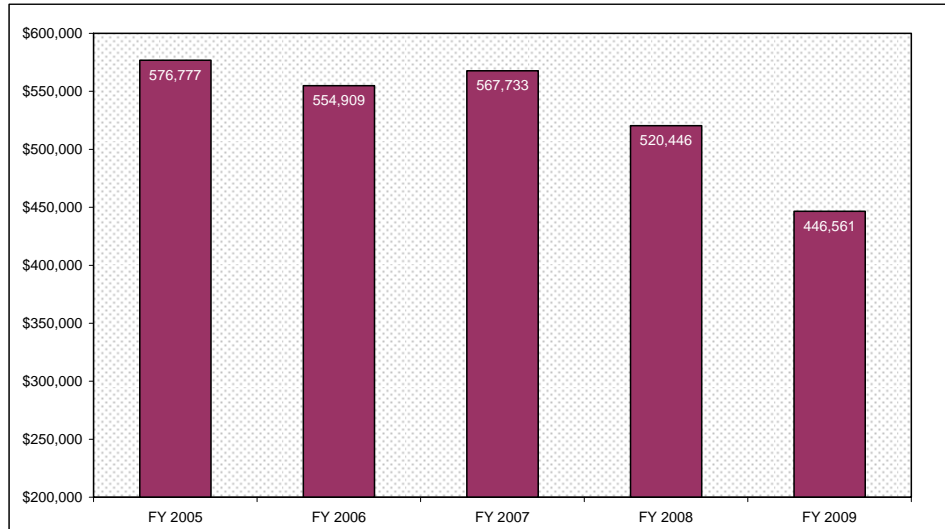


Source: Collection Report 5000-23.



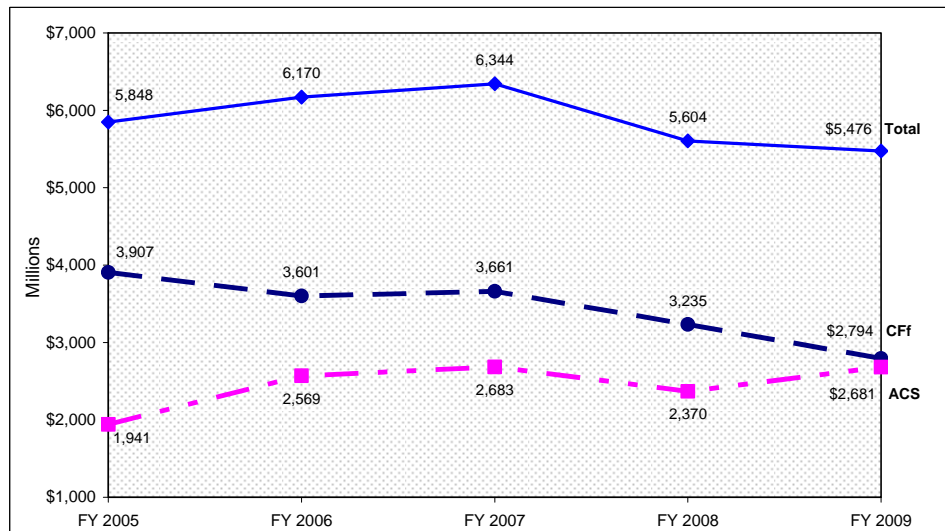
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Figure 7: Average Dollars Collected per Staff Year on TDA Tax Periods by the Cff



Source: TIGTA analysis of Collection Reports 5000-2 and 5000-23.

Figure 8: Net Amounts Collected on TDA Tax Periods by the Cff and ACS³



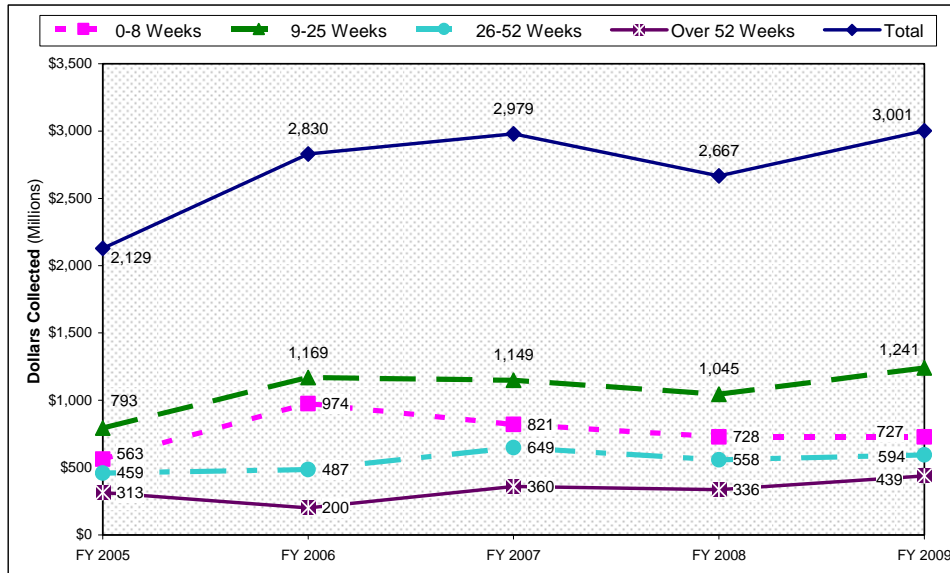
Source: Collection Report 5000-2.

³ The dollars collected shown in Figure 8 are the net amounts collected after adjustments such as refunds are considered. The amounts in Figures 9 and 10 are larger because they show the gross amounts collected.



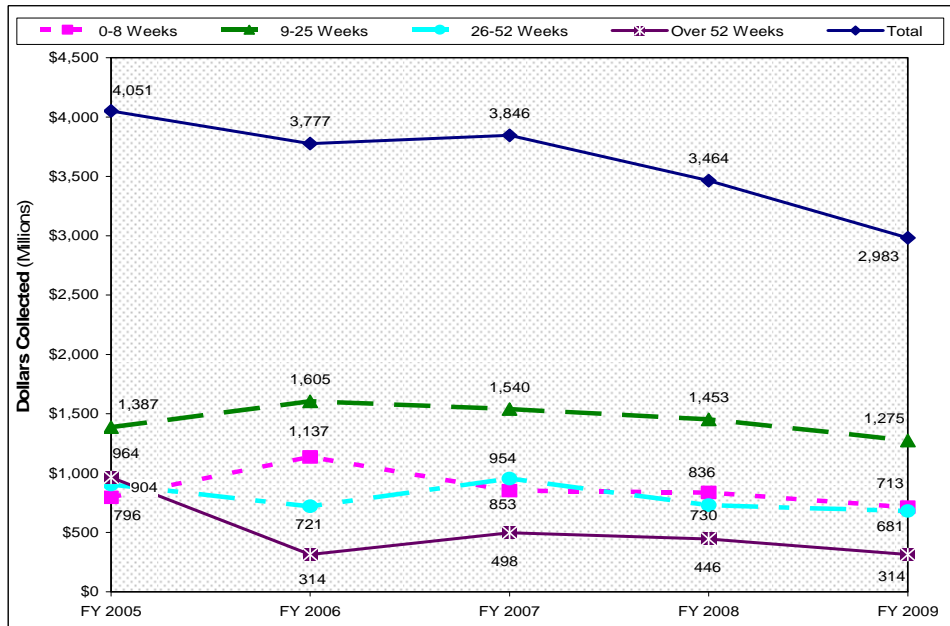
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Figure 9: Total Dollars Collected by Number of Weeks Assigned to the ACS



Source: Collection Report 5000-2.

Figure 10: Total Dollars Collected by Number of Weeks Assigned to the CFF

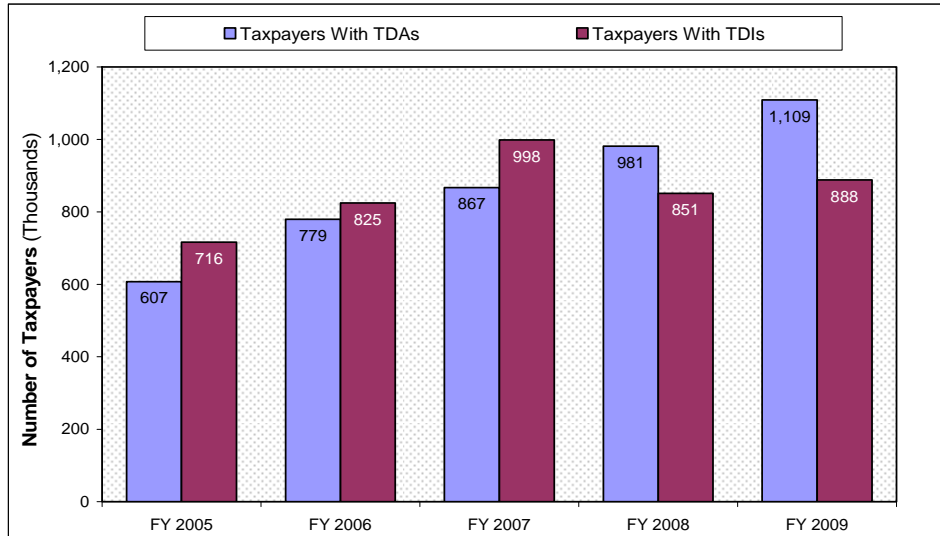


Source: Collection Report 5000-2.



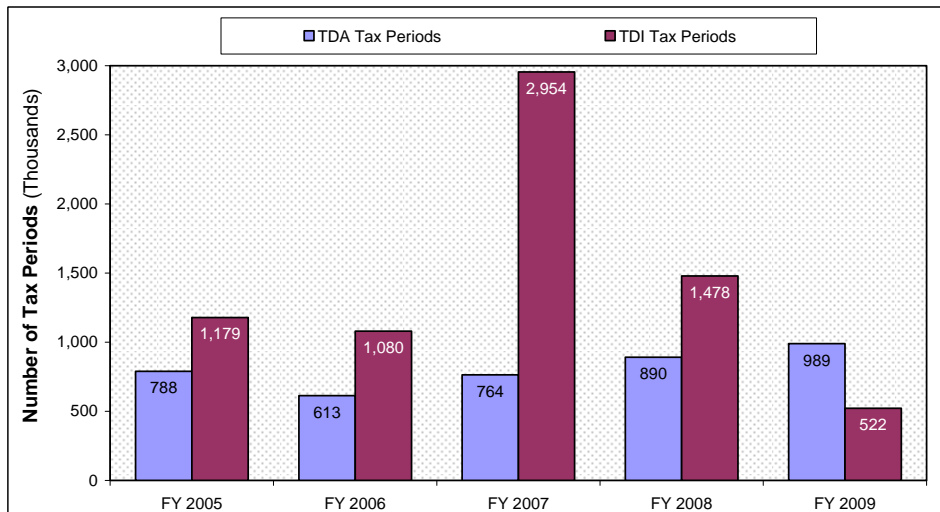
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Figure 11: Taxpayers With TDAs and TDIs Maintained in the Queue⁴



Source: Collection Reports 5000-2 and 5000-4.

Figure 12: TDA and TDI Tax Periods Shelved or Surveyed



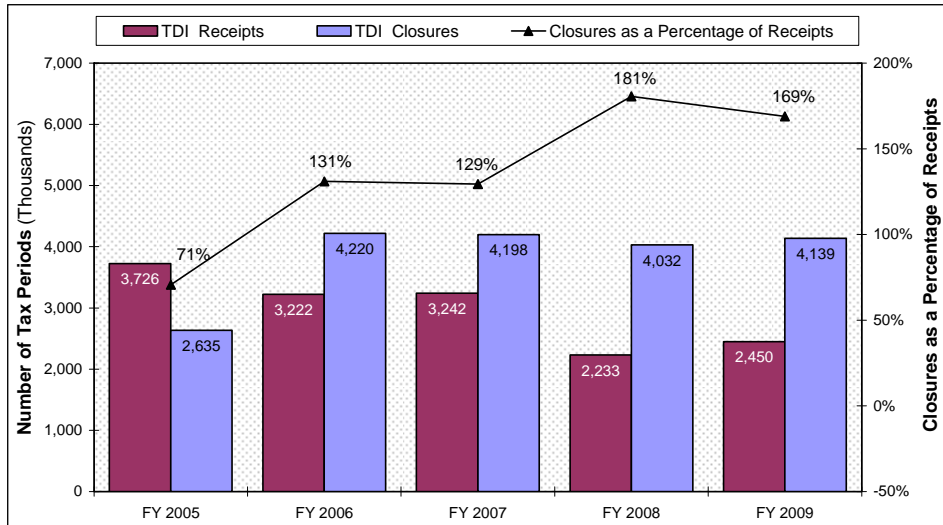
Source: TIGTA analysis of Collection Reports 5000-2 and 5000-4.

⁴ In recent years, the IRS removed from the Queue a large number of TDA cases that were considered to be potentially less productive than other Queue inventory (see Figure 12). The increase in TDAs could be at least partially attributed to the additional compliance assessments from working additional SFR cases (Figures 47 and 48) and the declining economy.



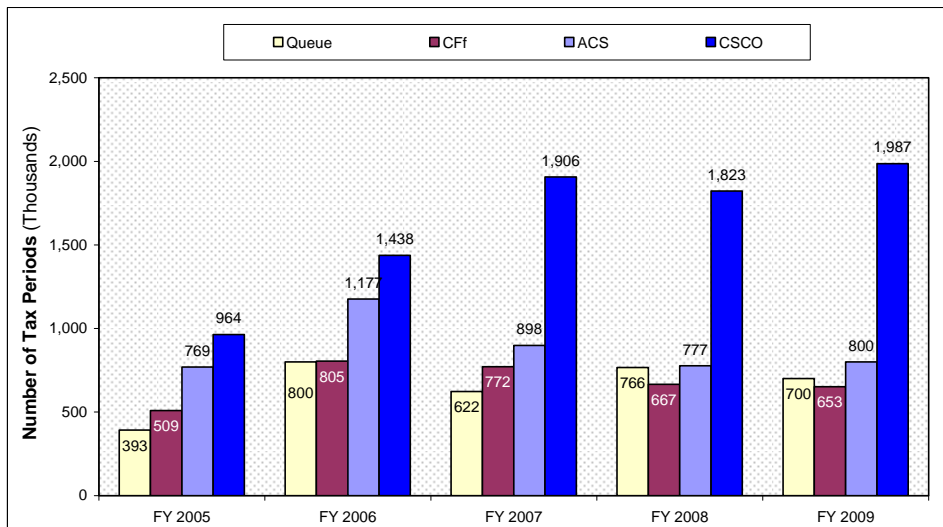
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Figure 13: Gap Between TDI Tax Period Receipts and Closures, Including TDI Tax Period Closures as a Percentage of Receipts⁵



Source: TIGTA analysis of Collection Report 5000-4.

Figure 14: Number of TDI Tax Periods Closed by Collection Functions



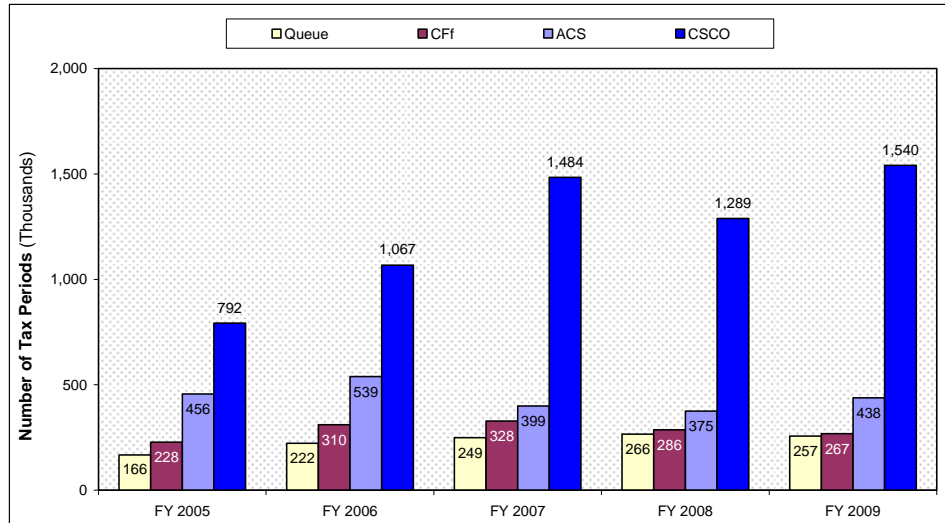
Source: TIGTA analysis of Collection Report 5000-4. CSCO = Compliance Services Collection Operations.

⁵ The closures shown in Figures 13 and 14 do not include the TDIs shelved or surveyed, which are shown in Figure 12.



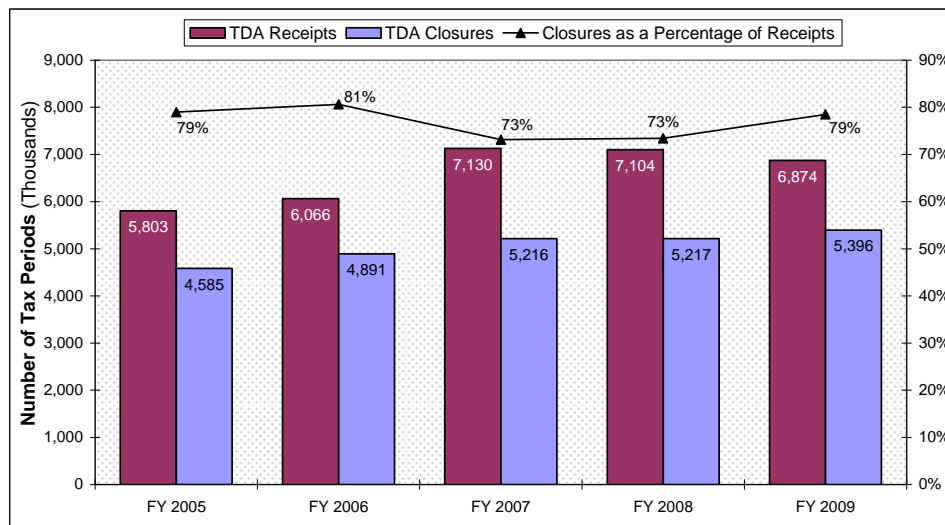
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Figure 15: Number of TDI Tax Periods Closed by Collection Functions With Receipt of a Delinquent Tax Return



Source: TIGTA analysis of Collection Report 5000-4. CSCO = Compliance Services Collection Operations.

Figure 16: Gap Between TDA Tax Period Receipts and Closures, Including TDA Closures as a Percentage of Receipts⁶



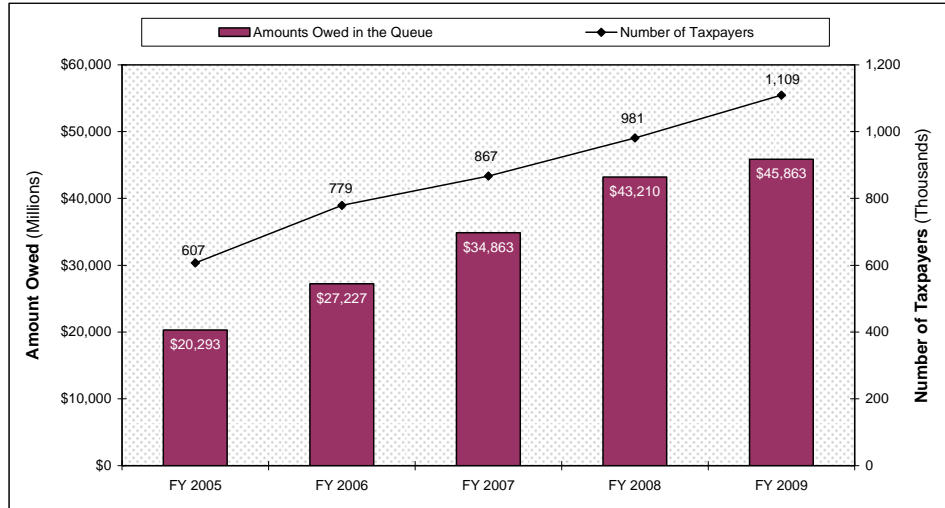
Source: TIGTA analysis of Collection Report 5000-2.

⁶ The closures shown in Figure 16 do not include the TDAs shelved, which are shown in Figure 12.



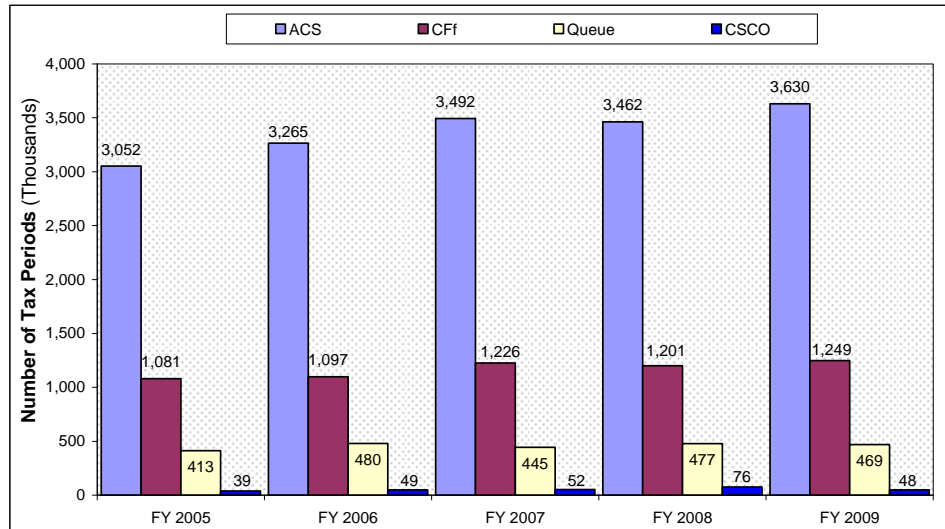
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Figure 17: Number of Taxpayers and Amount Owed in Queue Inventory⁷



Source: TIGTA analysis of Collection Report 5000-2.

Figure 18: Number of TDA Tax Periods Closed by Collection Functions, Excluding Shelved Accounts



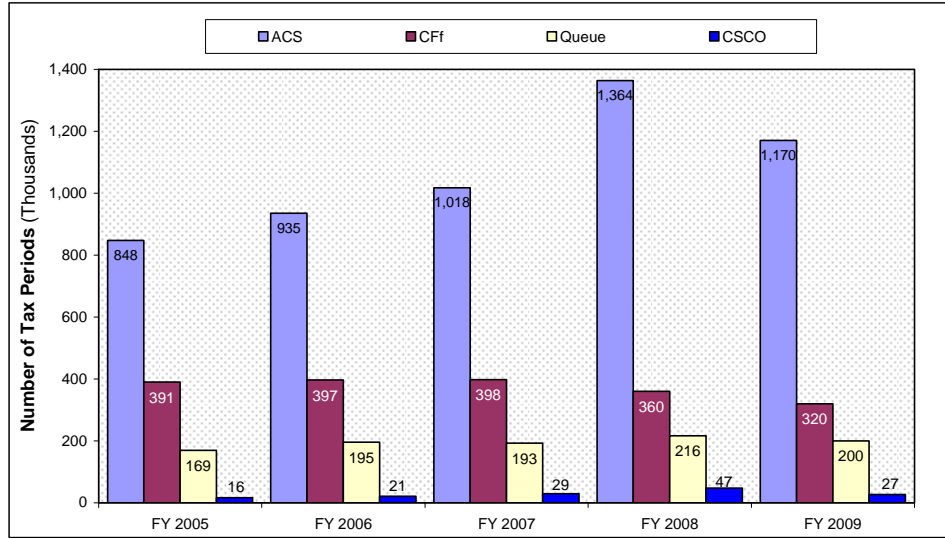
Source: TIGTA analysis of Collection Report 5000-2. CSCO = Compliance Services Collection Operations.

⁷ The increase shown here could be at least partially attributed to the additional compliance assessments from working additional SFR cases (Figures 47 and 48) and the declining economy.



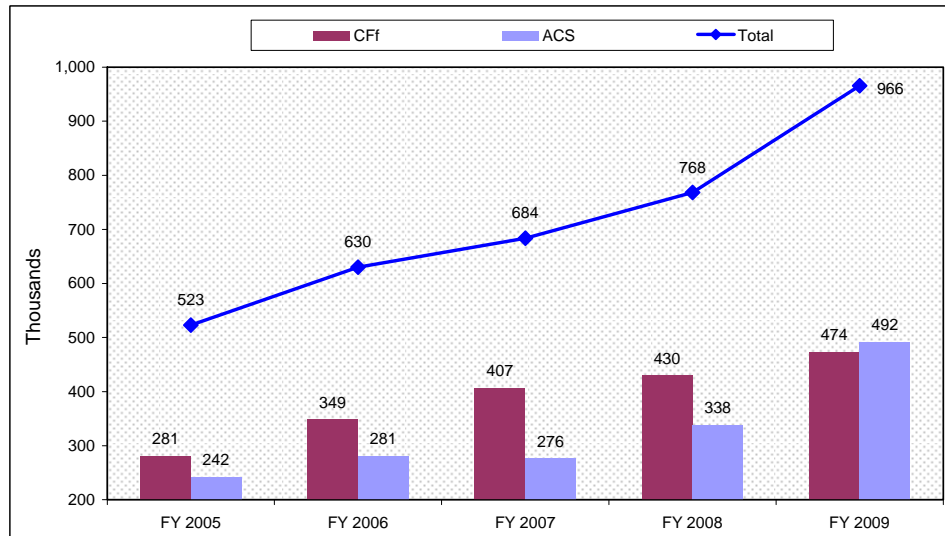
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Figure 19: Number of TDA Tax Periods Closed With Full Payment by Collection Functions



Source: TIGTA analysis of Collection Report 5000-2. CSCO = Compliance Services Collection Operations.

Figure 20: Number of Liens Filed by the CFf and ACS

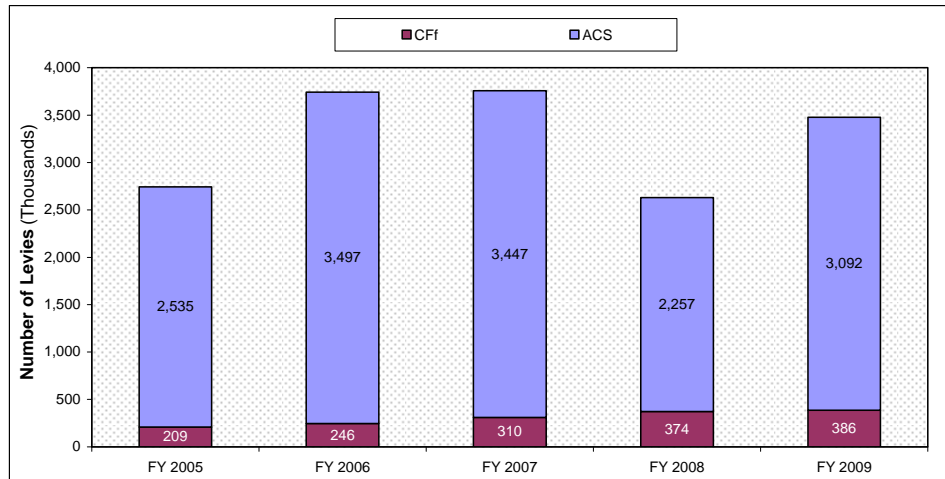


Source: TIGTA analysis of Collection Report 5000-23.



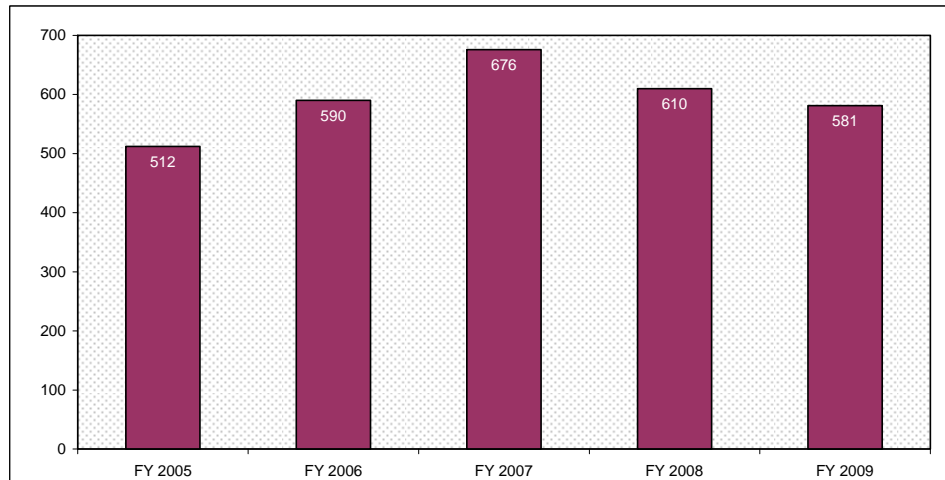
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Figure 21: Number of Levies Issued by the CFf and ACS



Source: TIGTA analysis of Collection Report 5000-23.

Figure 22: Number of Seizures

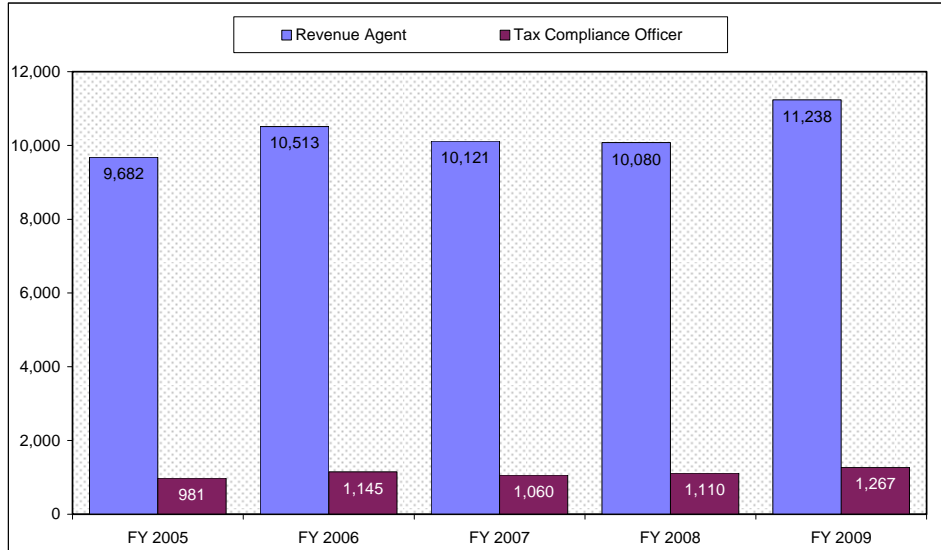


Source: IRS Data Book.



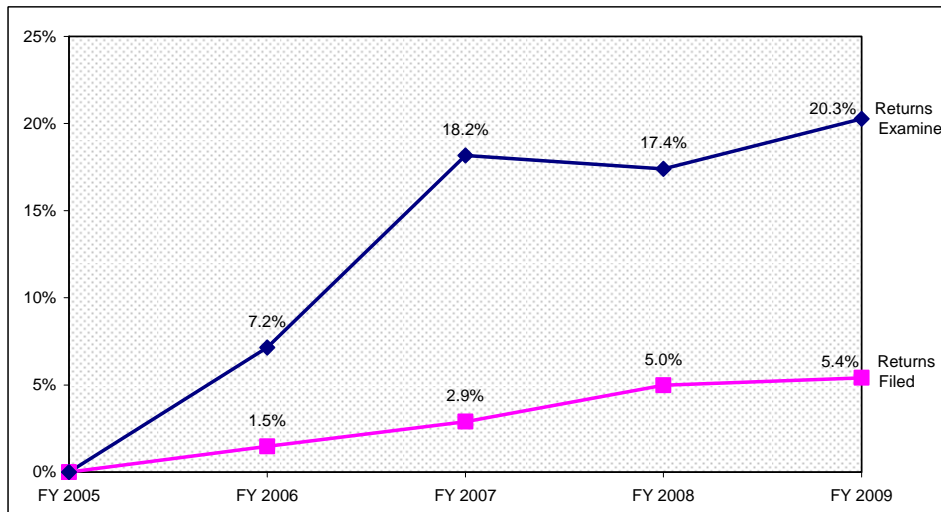
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Figure 23: Number of Examination Function Staff Conducting Examinations of Tax Returns at the End of Each Year



Source: TIGTA analysis of Examination Table 37.

Figure 24: Percentage Change From FY 2005 of All Tax Returns Filed and Examined

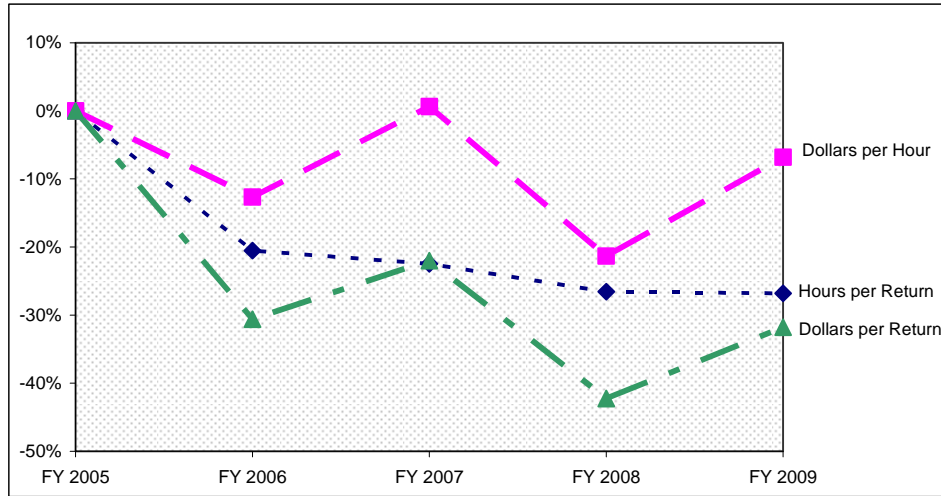


Source: TIGTA analysis of IRS Data Book.



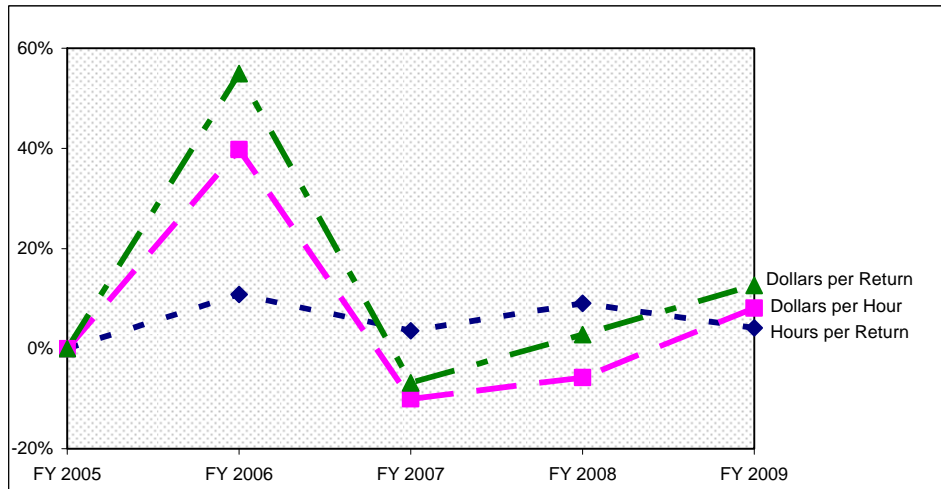
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Figure 25: Revenue Agent Results on U.S. Individual Income Tax Returns (Form 1040), Percentage Change From FY 2005⁸



Source: TIGTA analysis of Examination Table 37.

Figure 26: Revenue Agent Results on Corporate Income Tax Returns, Percentage Change From FY 2005



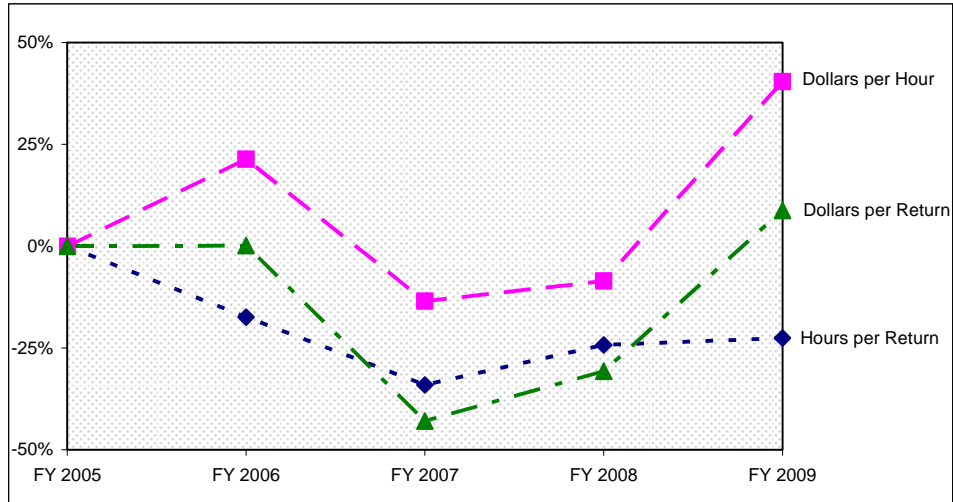
Source: TIGTA analysis of Examination Table 37.

⁸ Figures 25 through 29 do not include results from Coordinated Industry Cases or Training Returns.



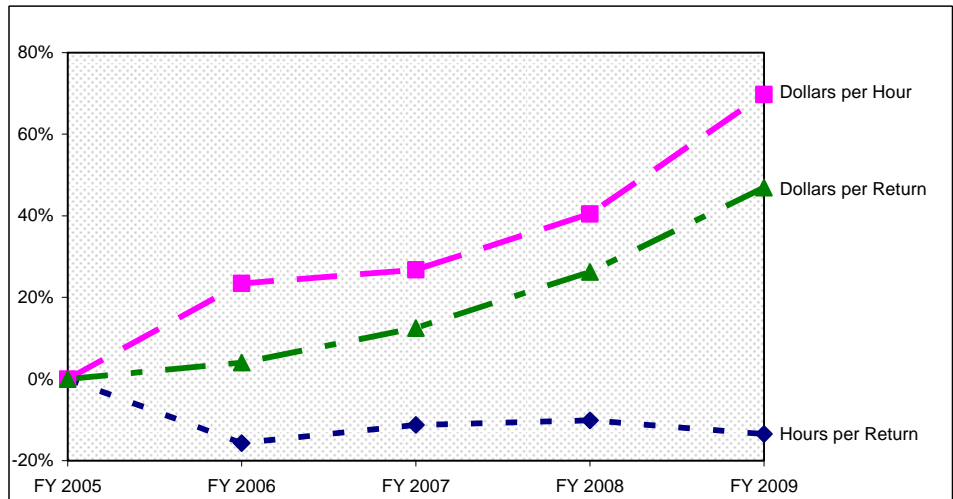
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Figure 27: Revenue Agent Results on Other Types of Tax Returns, Percentage Change From FY 2005



Source: TIGTA analysis of Examination Table 37.

Figure 28: Tax Compliance Officer Results on Forms 1040, Percentage Change From FY 2005

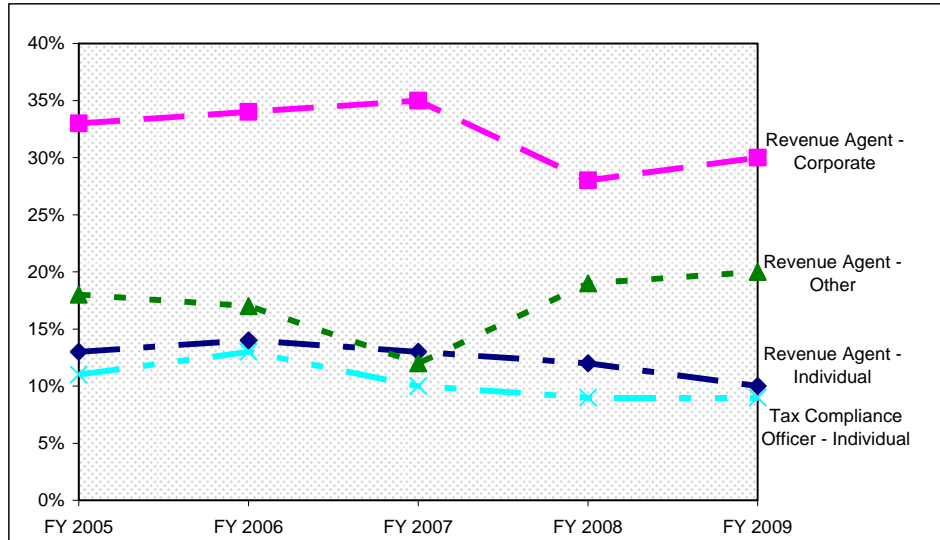


Source: TIGTA analysis of Examination Table 37.



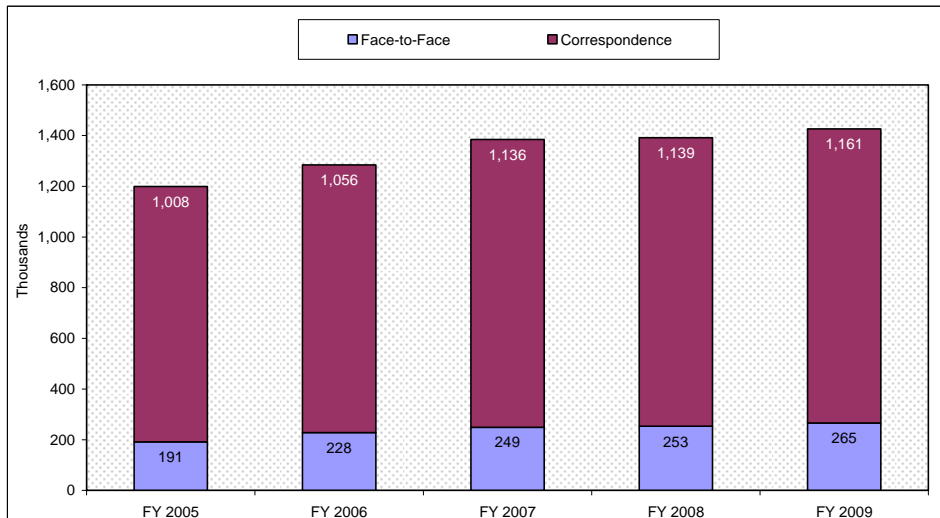
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Figure 29: Revenue Agent and Tax Compliance Officer No-Change Rates for Various Types of Tax Returns⁹



Source: TIGTA analysis of Examination Table 37.

Figure 30: Number of Forms 1040 Examined Face-to-Face or Through Correspondence



Source: Analysis of Examination Closed Case Database.

⁹ The IRS implemented updated Discriminant Index Function formulas for individuals during FY 2007.



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Figure 31: Numbers and Percentages of Individual and Business Tax Returns Examined

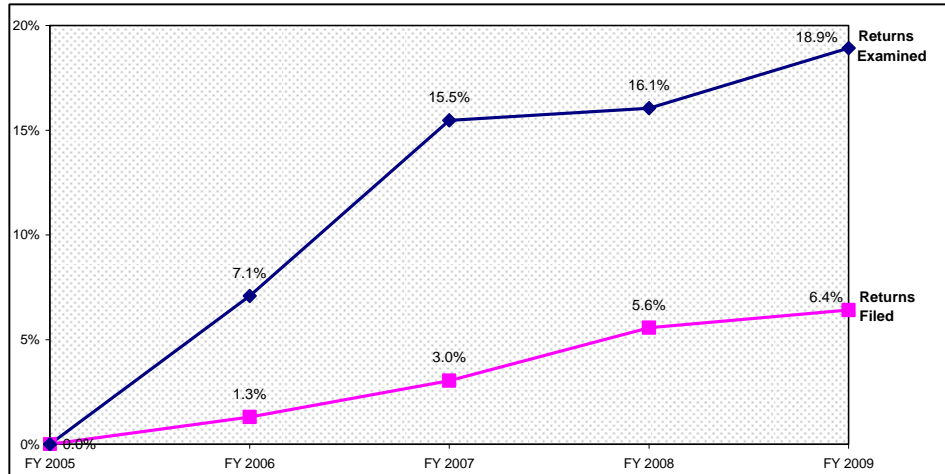
| | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
|--|-----------|-----------|-----------|-----------|-----------|
| Individual Returns | | | | | |
| Individuals (Forms 1040) | 1,199,035 | 1,283,950 | 1,384,563 | 1,391,581 | 1,425,888 |
| Coverage Rate | 0.92% | 0.97% | 1.03% | 1.01% | 1.03% |
| Business Returns | | | | | |
| Corporations < \$10 Million | 17,858 | 17,849 | 20,020 | 20,580 | 18,298 |
| Coverage Rate | 0.79% | 0.80% | 0.92% | 0.95% | 0.85% |
| Corporations \$10 Million and Greater | 10,829 | 10,578 | 9,644 | 9,406 | 9,536 |
| Coverage Rate | 20.02% | 18.60% | 16.81% | 15.26% | 14.55% |
| S Corporations (Forms 1120S) | 10,417 | 13,970 | 17,657 | 16,634 | 17,455 |
| Coverage Rate | 0.30% | 0.38% | 0.45% | 0.40% | 0.40% |
| Partnerships | 8,489 | 9,752 | 12,195 | 13,203 | 12,855 |
| Coverage Rate | 0.33% | 0.36% | 0.42% | 0.42% | 0.38% |
| Fiduciaries | 6,591 | 3,669 | 4,544 | 4,582 | 5,259 |
| Coverage Rate | 0.18% | 0.10% | 0.12% | 0.12% | 0.17% |
| Employment | 33,748 | 41,646 | 56,738 | 60,346 | 64,021 |
| Coverage Rate | 0.11% | 0.13% | 0.18% | 0.20% | 0.21% |
| Excise | 16,563 | 16,678 | 36,018 | 16,134 | 17,267 |
| Coverage Rate | 1.98% | 1.99% | 4.02% | 1.80% | 1.85% |
| Estates | 6,081 | 5,299 | 4,616 | 3,852 | 4,468 |
| Coverage Rate | 8.20% | 9.66% | 7.70% | 8.14% | 9.26% |
| Gift | 2,125 | 2,051 | 1,490 | 1,071 | 1,569 |
| Coverage Rate | 0.81% | 0.77% | 0.56% | 0.42% | 0.61% |

Source: TIGTA analysis of IRS Data Book.



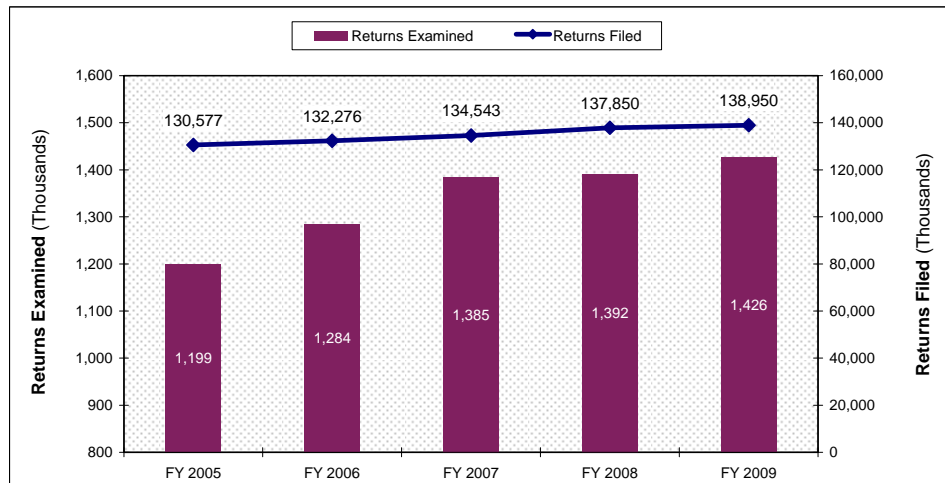
Trends in Compliance Activities Through Fiscal Year 2009

Figure 32: Percentage Change From FY 2005 of Forms 1040 Filed and Examined



Source: TIGTA analysis of IRS Data Book.

Figure 33: Number of Forms 1040 Filed and Examined

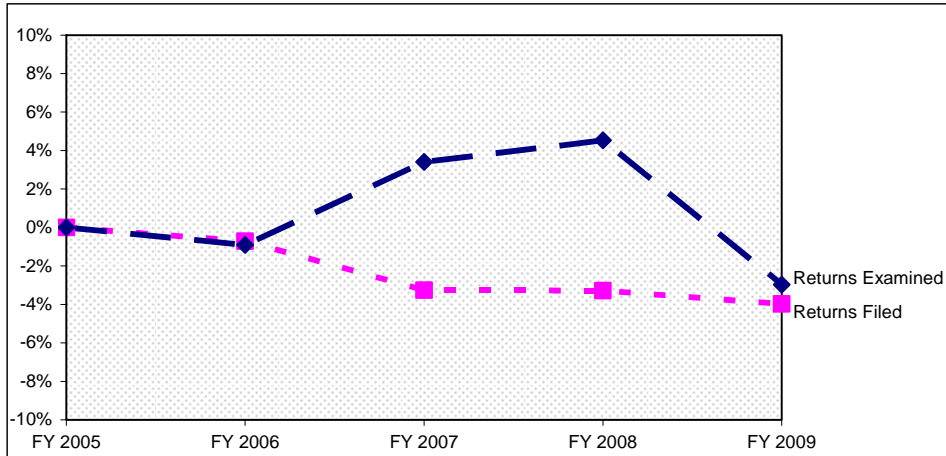


Source: TIGTA analysis of IRS Data Book.



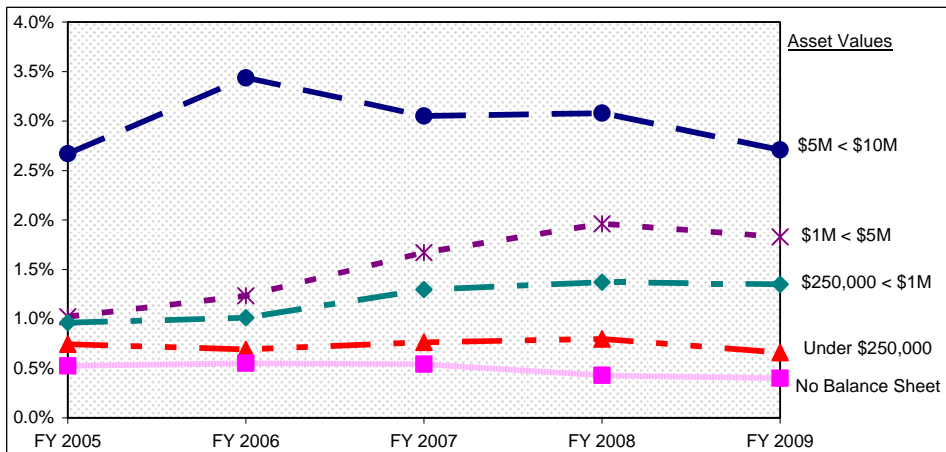
Trends in Compliance Activities Through Fiscal Year 2009

Figure 34: Percentage Change From FY 2005 of Corporate Income Tax Returns Filed and Examined¹⁰



Source: TIGTA analysis of IRS Data Book.

Figure 35: Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of Less Than \$10 Million



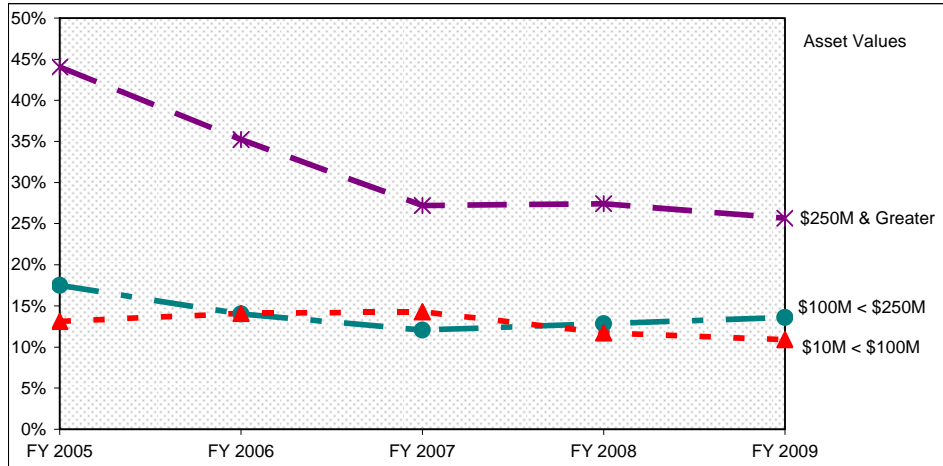
Source: TIGTA analysis of IRS Data Book.

¹⁰ Excludes U.S. Income Tax Return for an S Corporation (Form 1120S) and U.S. Income Tax Return of a Foreign Corporation (Form 1120-F).



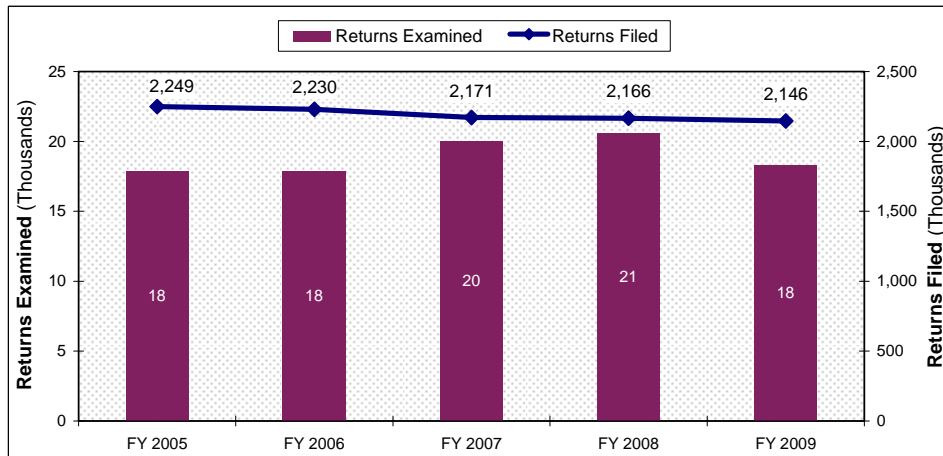
Trends in Compliance Activities Through Fiscal Year 2009

Figure 36: Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of \$10 Million and Greater



Source: TIGTA analysis of IRS Data Book.

Figure 37: Number of Tax Returns Filed and Examined - Corporations With Assets of Less Than \$10 Million

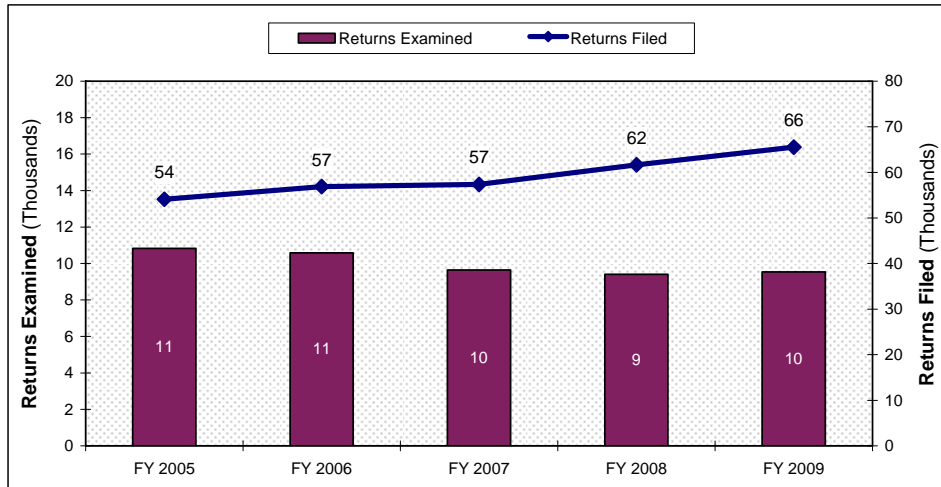


Source: TIGTA analysis of IRS Data Book.



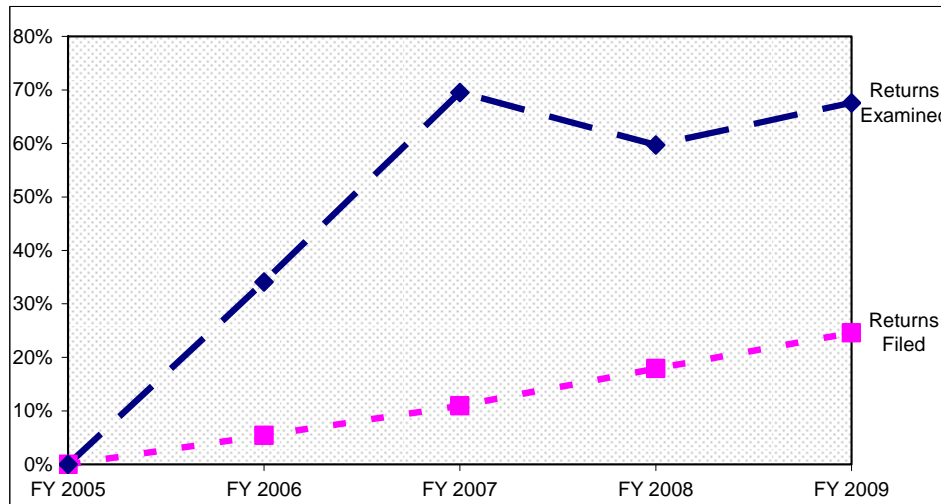
Trends in Compliance Activities Through Fiscal Year 2009

Figure 38: Number of Tax Returns Filed and Examined - Corporations With Assets of \$10 Million and Greater



Source: TIGTA analysis of IRS Data Book.

Figure 39: Percentage Change From FY 2005 of Forms 1120S Filed and Examined¹¹



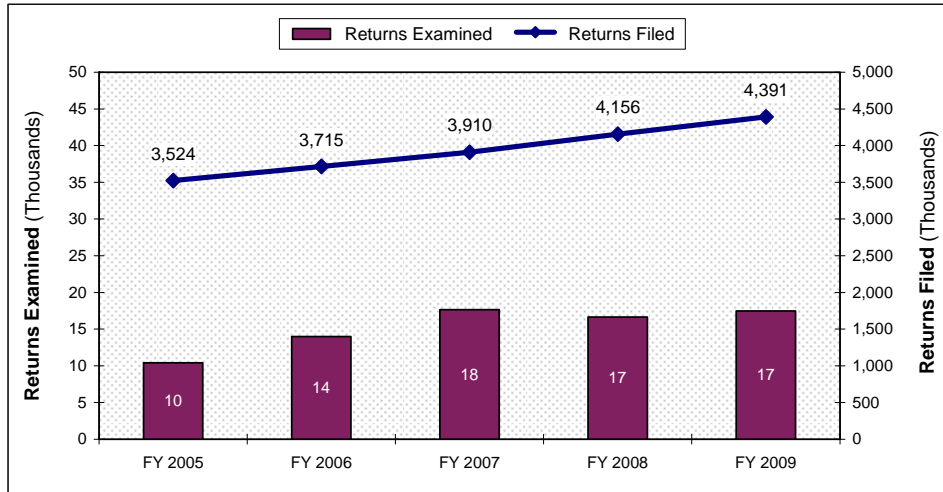
Source: TIGTA analysis of IRS Data Book.

¹¹ The increase in returns examined coincided with a compliance study of Forms 1120S.



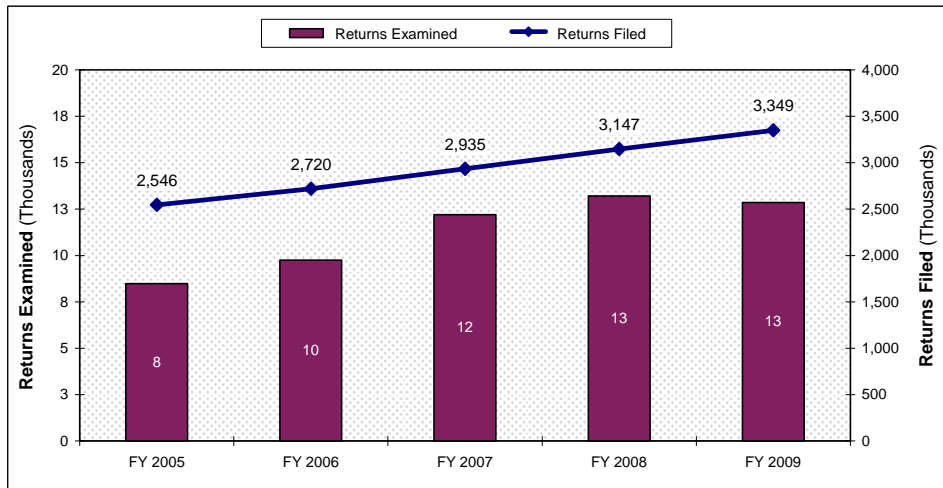
Trends in Compliance Activities Through Fiscal Year 2009

Figure 40: Number of Forms 1120S Filed and Examined



Source: IRS Data Book.

Figure 41: Number of Tax Returns Filed and Examined - Partnerships

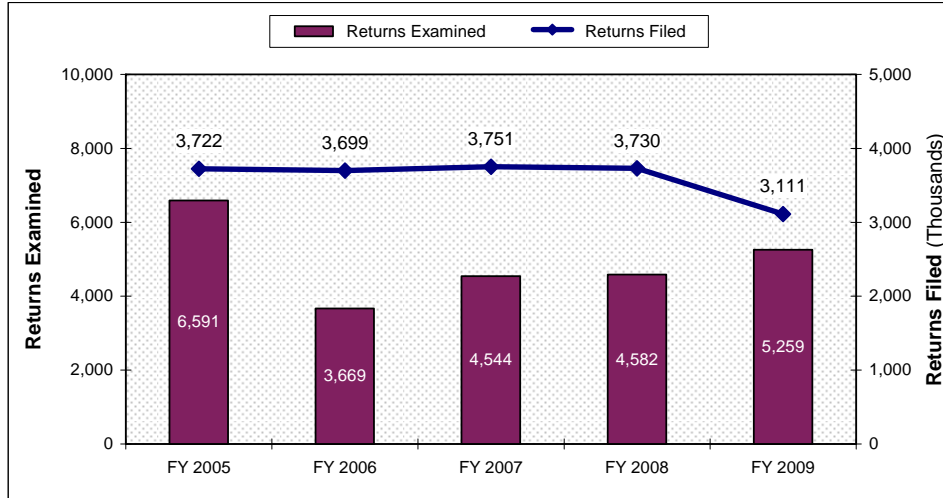


Source: IRS Data Book.



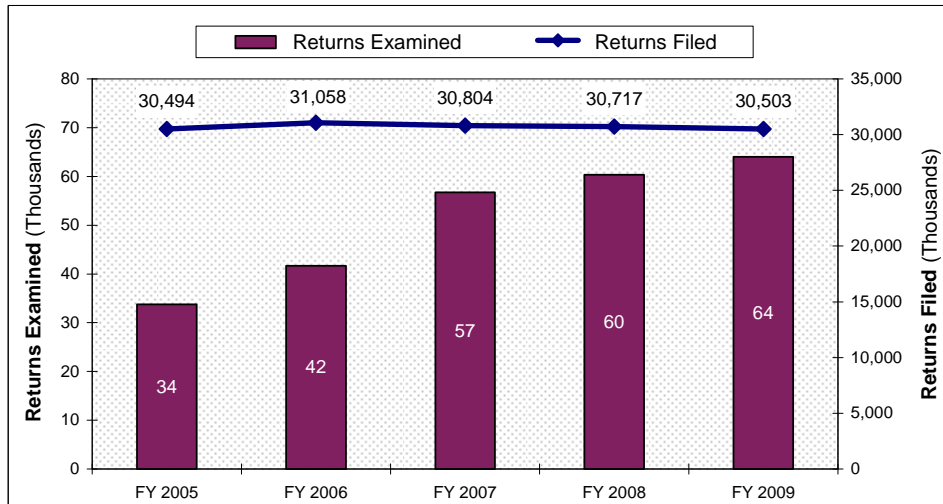
Trends in Compliance Activities Through Fiscal Year 2009

Figure 42: Number of Tax Returns Filed and Examined - Fiduciaries



Source: IRS Data Book.

Figure 43: Number of Tax Returns Filed and Examined - Employment Tax

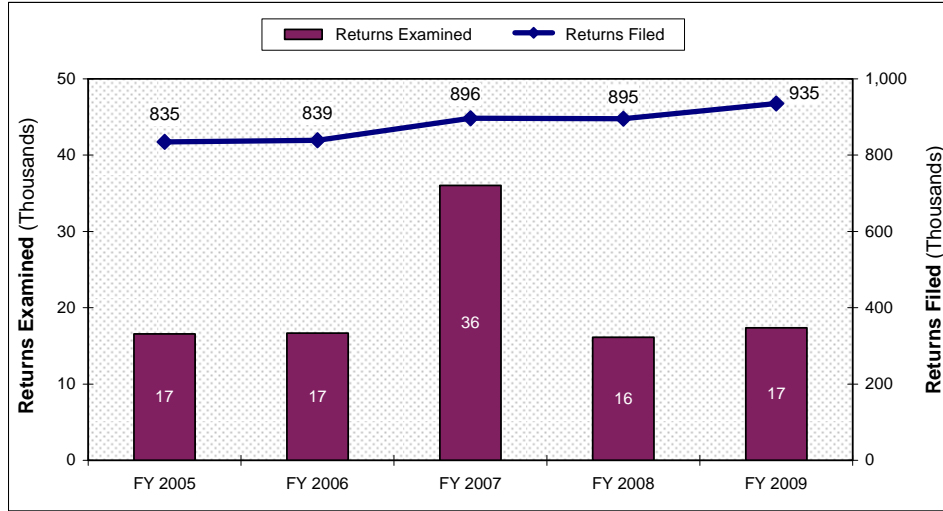


Source: IRS Data Book.



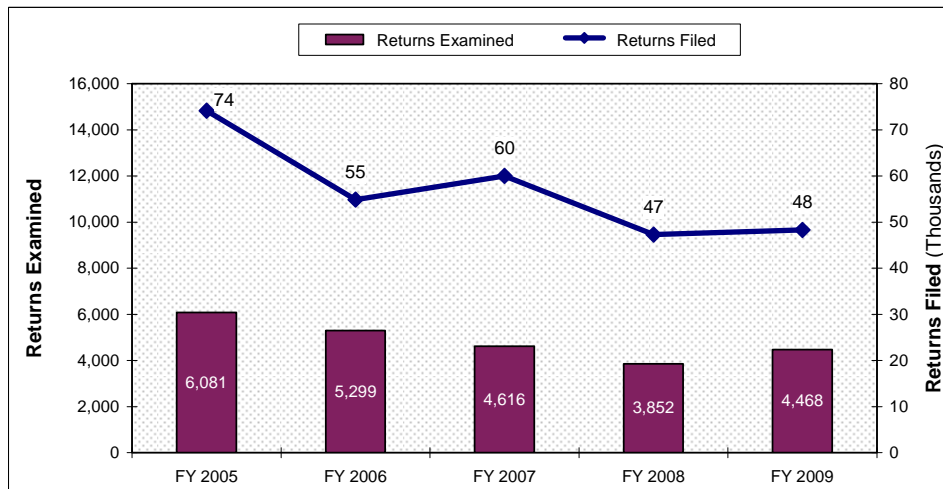
Trends in Compliance Activities Through Fiscal Year 2009

Figure 44: Number of Tax Returns Filed and Examined - Excise Tax



Source: IRS Data Book.

Figure 45: Number of Tax Returns Filed and Examined - Estates

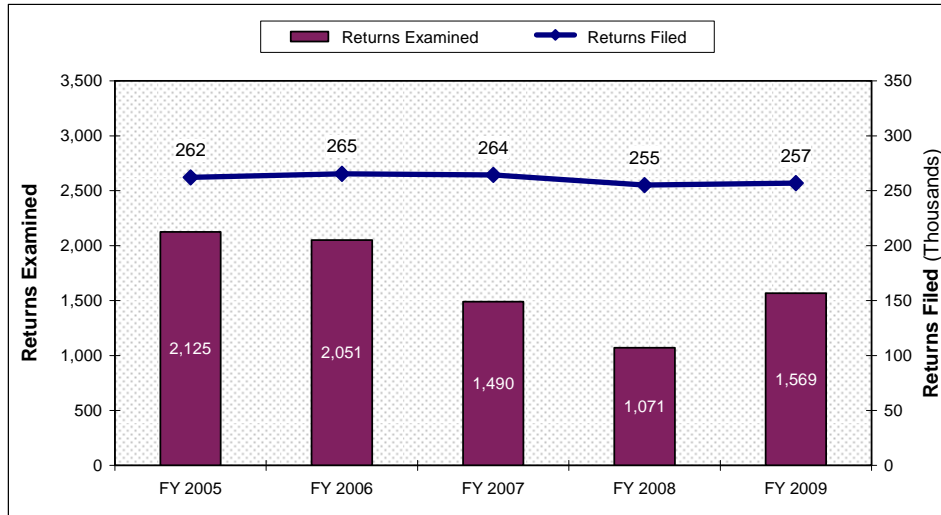


Source: IRS Data Book.



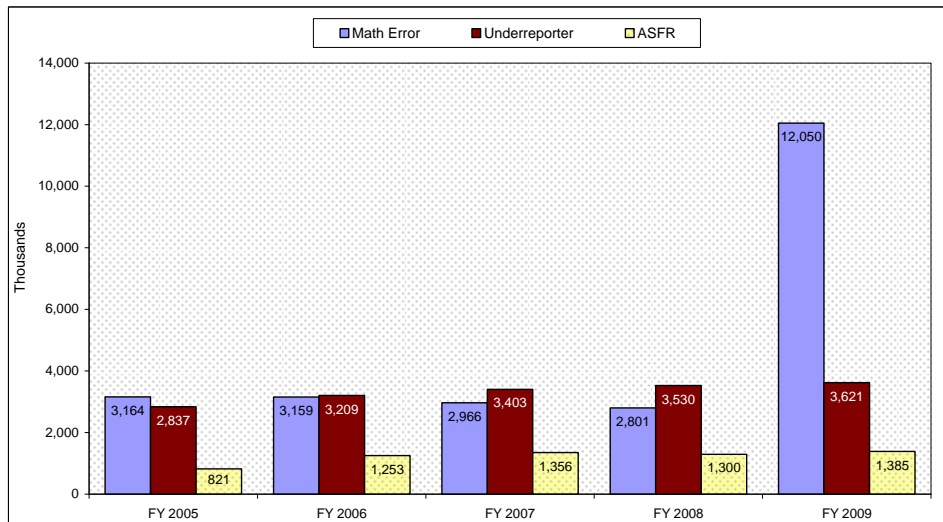
Trends in Compliance Activities Through Fiscal Year 2009

Figure 46: Number of Tax Returns Filed and Examined - Gift Tax



Source: IRS Data Book.

Figure 47: Number of Other Compliance Contacts on Forms 1040¹²



Source: IRS Data Book. ASFR = Automated Substitute for Return system.

¹² The spike in FY 2009 is at least partially due to eligible taxpayers whose circumstances changed and who may have claimed a rebate recovery credit to receive some or the entire unpaid portion of an economic stimulus payment. The FY 2009 data include cases where the rebate recovery credit was not claimed on tax returns, but the IRS computed the credit for eligible taxpayers. For FY 2009, 6,233,213 of these cases related to Tax Year 2008 returns and 240 related to Tax Year 2007 returns.



*Trends in Compliance Activities Through Fiscal
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Figure 48: Other Compliance Contacts – Forms 1040 Coverage Rate

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
|----------------------|----------------|----------------|----------------|----------------|----------------|
| Math Error | 3,163,794 | 3,159,077 | 2,965,745 | 2,801,427 | 12,049,948 |
| Coverage Rate | 2.38% | 2.36% | 2.21% | 2.02% | 7.81% |
| Underreporter | 2,837,149 | 3,209,000 | 3,403,000 | 3,530,000 | 3,621,000 |
| Coverage Rate | 2.16% | 2.42% | 2.54% | 2.54% | 2.35% |
| ASFR | 820,845 | 1,253,000 | 1,356,000 | 1,300,000 | 1,385,000 |
| Coverage Rate | 0.63% | 0.94% | 1.01% | 0.94% | 0.90% |

Source: TIGTA analysis of IRS Data Book. ASFR = Automated Substitute for Return system.



*Trends in Compliance Activities Through Fiscal
Year 2009*

Appendix VI

*Prior Treasury Inspector General for Tax
Administration Compliance Trends Reports*

Management Advisory Report: Evaluation of Reduction in the Internal Revenue Service's Compliance Activities (Reference Number 2000-30-075, dated May 12, 2000).

Management Advisory Report: Tax Return Filing and Examination Statistics (Reference Number 2001-30-175, dated September 21, 2001).

Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001 (Reference Number 2002-30-184, dated September 30, 2002).

Trends in Compliance Activities Through Fiscal Year 2002 (Reference Number 2003-30-078, dated March 31, 2003).

Trends in Compliance Activities Through Fiscal Year 2003 (Reference Number 2004-30-083, dated April 23, 2004).

Trends in Compliance Activities Through Fiscal Year 2004 (Reference Number 2005-30-055, dated March 30, 2005).

Trends in Compliance Activities Through Fiscal Year 2005 (Reference Number 2006-30-055, dated March 27, 2006).

Trends in Compliance Activities Through Fiscal Year 2006 (Reference Number 2007-30-056, dated March 27, 2007).

Trends in Compliance Activities Through Fiscal Year 2007 (Reference Number 2008-30-095, dated April 18, 2008).

Trends in Compliance Activities Through Fiscal Year 2008 (Reference Number 2009-30-082, dated June 10, 2009).