Procedures Allowed Inconsistent Processing of Streamlined Installment Agreements

July 8, 2011

Reference Number 2011-30-063

Redaction Legend:
1 = Tax Return/Return Information

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HIGHLIGHTS

PROCEDURES ALLOWED INCONSISTENT PROCESSING OF STREAMLINED INSTALLMENT AGREEMENTS

Highlights

Final Report issued on July 8, 2011

Highlights of Reference Number: 2011-30-063 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

IMPACT ON TAXPAYERS

Taxpayers can make payments for their taxes in installment payments if it will facilitate collection of the liabilities. However, some agreements will not be paid off when expected or were reinstated after multiple defaults, and options about how to avoid the user fees were not consistently communicated to taxpayers. Taxpayers paid more than $1 million in user fees that could have been avoided, and thousands of taxpayers may have been surprised to learn they still owed taxes after they completed the terms of their streamlined installment agreements.

WHY TIGTA DID THE AUDIT

The objective of this review was to determine whether streamlined installment agreement requirements are consistently applied. TIGTA also evaluated the processing of defaulted streamlined installment agreements for potential improvements.

WHAT TIGTA FOUND

The streamlined installment agreement program has brought in large amounts of revenue with minimal Internal Revenue Service (IRS) processing, while decreasing taxpayer burden by reducing the amount of documentation required. In Fiscal Year 2010, approximately 3.1 million taxpayers entered into streamlined installment agreements. In the same period, approximately $5.9 billion was collected and 1.7 million taxpayers fully paid their liabilities through streamlined installment agreements.

Although the IRS was following procedures for processing streamlined installment agreements, the procedures allowed for inconsistent processing and treatment of taxpayers. Specifically, payment amounts for some streamlined installment agreements will not fully pay the liability within 60 months, streamlined installment agreements with multiple defaults were reinstated without additional review, and taxpayers were not always offered extensions to pay instead of streamlined installment agreements.

Inconsistent processing and treatment of taxpayers may cause inefficient use of IRS resources and jeopardize the IRS's ability to collect tax liabilities. Inconsistencies can also cause economic hardships on taxpayers and may potentially lead to future tax liabilities.

WHAT TIGTA RECOMMENDED

TIGTA made several recommendations to revise the streamlined installment agreement procedures.

In their response to the report, IRS officials agreed with the recommendations and plan to take steps to address TIGTA's concerns. However, IRS officials disagreed with our reported outcome measure because they do not believe all taxpayers would have waived appeal rights to avoid paying an installment agreement user fee. TIGTA maintains the reported outcome measure is reasonable. TIGTA agrees that it is unknown if all taxpayers would have waived appeal rights, which is why the outcome measure is reported as "potential."

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

July 8, 2011

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: *(for)* Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Procedures Allowed Inconsistent Processing of Streamlined Installment Agreements (Audit # 201030017)

This report presents the results of our review to determine whether streamlined installment agreement[1] requirements are consistently applied. We also evaluated the processing of defaulted streamlined installment agreements for potential improvements. This audit was initiated as part of our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the Internal Revenue Service 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.

[1] See Appendix V for a glossary of terms.

Table of Contents

Abbreviations

IRS	Internal Revenue Service
SB/SE	Small Business/Self-Employed
W&I	Wage and Investment

Background

The Internal Revenue Code[1] allows taxpayers to make payments on any tax in installment payments if such an arrangement will facilitate collection of the liabilities. Taxpayers are encouraged to pay their liabilities in full to avoid the costs of an installment agreement,[2] which include a user fee, the accrual of penalties and interest, and the possible filing of a Notice of Federal Tax Lien. Generally, no levies may be served to the taxpayer as long as the taxpayer remains in compliance with the terms of the installment agreement.

The Internal Revenue Service (IRS) created a provision for taxpayers with aggregate assessed individual and business income tax liabilities equal to $25,000 or less, called streamlined installment agreements. Streamlined installment agreements benefit taxpayers because they are generally processed quickly without a financial analysis or managerial approval and do not require a lien determination.

Taxpayers can request a streamlined installment agreement by submitting Installment Agreement Request (Form 9465), completing the online application on the IRS web site, or contacting the IRS directly. Taxpayers may qualify for a streamlined installment agreement under the following conditions:

- The aggregate unpaid balance of assessments is $25,000 or less. The unpaid balance of assessments includes tax, assessed penalty and interest, and all other assessments on the account. It does not include penalties and interest that will continue to accrue.
- If pre-assessed taxes are included, the pre-assessed liability plus unpaid balance of assessments must be $25,000 or less.
- The aggregate unpaid balance of assessments must be fully paid in 60 months or by the Collection Statute Expiration Date, whichever comes first.

Taxpayers who do not meet the conditions for a streamlined installment agreement may enter into a non-streamlined installment agreement. The non-streamlined installment agreements require the taxpayer to complete a financial statement and must be approved by an IRS manager.

Streamlined installment agreements make up the vast majority of installment agreements initiated by taxpayers. During Fiscal Year 2010, 94 percent of installment agreements initiated were streamlined installment agreements. During the same period, 18 percent of taxpayers with streamlined installment agreements defaulted on their agreements.

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1 Internal Revenue Code Section 6159.
2 See Appendix V for a glossary of terms.

This review was performed at the Small Business/Self-Employed (SB/SE) Division headquarters office in New Carrollton, Maryland, the Wage and Investment (W&I) Division headquarters office in Atlanta, Georgia, and campuses in Philadelphia, Pennsylvania, and Kansas City, Missouri, during the period June 2010 through February 2011. 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.

Results of Review

The streamlined installment agreement program has brought in large amounts of revenue with minimal IRS processing, while decreasing taxpayer burden by reducing the amount of documentation required. In Fiscal Year 2010, approximately 3.1 million taxpayers entered into streamlined installment agreements. In the same period, approximately $5.9 billion was collected and 1.7 million taxpayers paid their liabilities in full through streamlined installment agreements.

We selected a random sample of 139 streamlined installment agreements initiated between October 2009 and April 2010[3] to determine whether the streamlined installment agreements were worked properly and procedures were followed. We reviewed information retained in the Integrated Data Retrieval System and Accounts Management System/Desktop Integration, as appropriate.

The results of our review showed that while the streamlined installment agreement program has brought in significant revenue, changes can be made to provide for more consistent and effective processing, as well as more equitable treatment of taxpayers. Specifically, we determined that:

- Some liabilities will not be fully paid within 60 months.
- Procedures allow multiple reinstatements of defaulted streamlined installment agreements without additional review.
- Taxpayers are not always offered extensions to pay instead of streamlined installment agreements.

Some Liabilities Will Not Be Fully Paid Within 60 Months

Taxpayers can request to initiate a streamlined installment agreement if their aggregate assessed balance is $25,000 or less and the liability can be fully paid within 60 months or by the Collection Statute Expiration Date, whichever is sooner. The Internal Revenue Manual requires the IRS to calculate the minimum streamlined installment agreement payments by dividing the outstanding aggregate assessed balance due by up to 60 months or by the number of months remaining before the Collection Statute Expiration Date. The accrual of penalty and interest is not considered when determining the minimum payment amount.

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[3] A valid statistical sample was selected from a population of 672,304 streamlined installment agreements accepted during the first 6 months of Fiscal Year 2010 (October 4, 2009, to April 3, 2010). The sample of 139 records was based on a confidence level of 95 percent with a precision level of ±5 percent and an expected error rate of 10 percent.

The IRS is computing minimum streamlined installment agreement payments in accordance with Internal Revenue Manual procedures. However, because the computation does not consider current and future accruals of penalties and interest that have yet to be assessed, many accounts will not be fully paid within the 60-month term. Furthermore, IRS reminder notices do not include future interest and accruals or indicate that there will be a remaining balance at the end of the term. In our sample of 139 streamlined installment agreements, 28 (20 percent) would not be fully paid within the 60-month term. At the end of the 60 months, these taxpayers will have an average balance of $1,747.43 remaining and an average of 11 additional months of payments to fully pay their account liabilities. Based on our statistically valid sample, we are 95 percent confident that between 90,444 and 180,412 streamlined installment agreements would not fully pay the balance within the 60-month term and these accounts would have an aggregate remaining balance between $121,064,866 and $352,236,280.

Extended payments may jeopardize the IRS's ability to collect on tax liabilities because the accrued liabilities may not be paid before the Collection Statute Expiration Date. In **1** of the 28 cases that will not be fully paid within 60 months, the minimum payment accepted by the IRS will not pay off the accrued penalties and interest by the Collection Statute Expiration Date. In addition, taxpayers may be surprised to learn that they still have a significant balance due after they have successfully completed the terms of their streamlined installment agreements.

Recommendation

Recommendation 1: The Director, Collection Policy, SB/SE Division, should clarify the streamlined installment agreement procedures to ensure that the payment amount will fully pay the entire liability, including future accruals of penalties and interest, before the Collection Statute Expiration Date and that taxpayers are aware they may have a significant balance due remaining at the end of the 60-month term.

> ***Management's Response:*** IRS management agreed with this recommendation. The Director, Campus Compliance Services, SB/SE Division, and the Director, Filing and Payment Compliance, W&I Division, will consider clarification of the streamlined procedures to ensure that the entire liability is fully paid prior to the Collection Statute Expiration Date and will review procedures concerning the information provided to taxpayers as to the payment terms of the installment agreement. However, the IRS sends the taxpayer a Monthly Installment Agreement Reminder Notice and an Annual Reminder Notice, both of which show the remaining balance owed by the taxpayer. Also, varying interest rates make it impossible to know the exact amount owed at the time an installment agreement is established.

Procedures Allow Multiple Reinstatements of Defaulted Streamlined Installment Agreements Without Additional Review

When a taxpayer defaults on his or her streamlined installment agreement due to missed payments or incurring new tax liabilities, he or she can request IRS reinstatement of the agreement. To reinstate a streamlined installment agreement, the taxpayer can either call the IRS or resubmit Form 9465. If the taxpayer defaults on the streamlined installment agreement, the IRS may reinstate the agreement without managerial approval or financial analysis, as long as it meets streamlined installment agreement requirements and there are no more than 2 defaults within the past 12 months. There is no limit on the number of times a taxpayer can default over the life of the agreement.

Multiple defaults could be an indication that the taxpayer may not be in a financial position to continue making the payments over a sustained period of time. Nineteen (14 percent) of the 139 sampled streamlined installment agreements defaulted multiple times during the life of the agreement, ranging from 2 to 10 defaults. None of the 19 cases required a financial analysis to determine the reasons for the defaults or managerial approval to reinstate the agreement. We analyzed the entire population of 7.7 million taxpayers with defaulted installment agreements and identified more than 1.5 million taxpayers who defaulted on their agreements multiple times during the life of the agreements. Some of these taxpayers had defaulted more than 20 times.

An analysis of the taxpayer's financial situation, along with the reasons for default, may help the IRS determine whether the taxpayer can meet the terms of the agreement and prevent future defaults. We performed a brief financial analysis of the 19 accounts in our sample where the taxpayers had multiple defaults. Our analysis, which consisted of reviewing prior tax returns and comparing the adjusted gross income to the streamlined installment agreement payment, found that six of these taxpayers would likely be unable to continue meeting the terms of their streamlined installment agreements and, therefore, would continue to have default issues.

When reinstating taxpayers into a streamlined installment agreement without an adequate analysis of the reasons for the multiple defaults, the IRS does not know whether the taxpayer can afford to make the payments. Multiple reinstatements can cause economic hardships on taxpayers who are continuing to try to make payments they cannot afford and may potentially lead to future tax liabilities. Additionally, each time a taxpayer defaults on a streamlined installment agreement, the taxpayer pays an additional user fee, additional IRS resources are required to reinstate the agreement, and further collection actions are delayed.

Further, IRS procedures call for different treatment of defaulted streamlined installment agreements based on which Collection function is processing the reinstatement. If the reinstatement is processed in campus locations, financial analysis and managerial approval are required after the third default in a 12-month period. However, if the Collection Field function processes the reinstatement, further analysis and approval are required after only the second default in 12 months. Conflicting procedures can create inequitable treatment of taxpayers and do not protect the best interests of either the IRS or taxpayer.

Management Action: During our review, in November 2010, the SB/SE and W&I Divisions formed a task force to conduct an in-depth analysis of the streamlined installment agreement default and reinstatement process. The task force is in the process of identifying procedural changes and developing tests to strengthen the streamlined installment agreement default and reinstatement process.

Recommendation

Recommendation 2: The Director, Campus Compliance Services, SB/SE Division, and the Director, Filing and Payment Compliance, W&I Division, should consider the results of the streamlined installment agreement task force and revise the procedures for reinstating taxpayers with a history of defaulting on their agreements.

> ***Management's Response:*** IRS management agreed with this recommendation. The Director, Campus Compliance Services, SB/SE Division, and the Director, Filing and Payment Compliance, W&I Division, agreed to review and consider the results of the streamlined installment agreement task force dealing with procedures for reinstating taxpayers with a history of defaulting on their agreements.

Taxpayers Are Not Always Offered Extensions to Pay Instead of Streamlined Installment Agreements

In cases where the proposed streamlined installment agreement payment amount will fully pay the liability within 120 days, the IRS can grant the taxpayer an extension to pay instead of processing the streamlined installment agreement. This option benefits the taxpayer, who avoids the installment agreement user fee, which can total up to $105.[4] In our sample, we identified 3 cases where the taxpayer could have paid off his or her liability within 120 days, based on the proposed payment amount. We analyzed the entire population of more than 9 million installment agreements and identified 15,037 cases where the taxpayer paid off the tax liability within 120 days. All of these cases were assessed installment agreement user fees totaling $1,056,399.

The IRS must obtain taxpayer approval before it can process the case as an extension to pay instead of a streamlined installment agreement. However, the IRS is not consistent in how it offers this option to taxpayers. Taxpayers can initiate a streamlined installment agreement

[4] The fee is $105 for installment agreements entered into on or after January 1, 2007. If the taxpayer pays by way of a direct debit from the taxpayer's bank account, then the fee is $52. No matter the method of payment, the user fee is $43 if the taxpayer is a low-income taxpayer.

request by telephone, mail, or on the Internet. When a request is received by telephone, IRS employees regularly offer taxpayers the option of an extension to pay instead of the streamlined installment agreement. However, taxpayers are not always offered extensions to pay when the request is received through the Internet or by mail. We interviewed five teams of employees who process mail and Internet requests. Two of the 5 teams told us they regularly make an effort to contact taxpayers to offer extensions to pay when they see that the proposed payment will pay off the liability within 120 days. The other three teams stated they just process the requests against the streamlined installment agreement guidelines and do not consider extensions to pay unless specifically asked.

Both the Internet request screen and Form 9465 address options for taxpayers who can pay off his or her liability within 120 days. The Internet request screen allows taxpayers to explore further information on extensions. Form 9465 mentions that the taxpayer should contact the IRS if he or she can pay within 120 days. Taxpayers may not understand the reason for the contact or may be reluctant to contact the IRS instead of sending in a form. Because the streamlined installment agreement procedures do not require taxpayer contact for potential extensions to pay, taxpayers are not always treated equitably and may have to pay a user fee that could have been avoided.

Recommendation

Recommendation 3: The Director, Campus Compliance Services, SB/SE Division, and the Director, Filing and Payment Compliance, W&I Division, should revise the streamlined installment agreement procedures to ensure taxpayers are informed about all payment options when the proposed payment will fully pay the liability within 120 days, regardless of how the request is being submitted (online, verbal, or written). This effort could consist of attempted taxpayer contact or a change to the Internet request screen and Form 9465 to allow the taxpayer to give the IRS permission to process the request as an extension to pay rather than an installment agreement if the agreed-to payment amount is sufficient.

> ***Management's Response:*** IRS management agreed with this recommendation. The Director, Campus Compliance Services, SB/SE Division, and the Director, Filing and Payment Compliance, W&I Division, will pursue further discussions with Counsel to determine whether or not the IRS can establish the extension to pay instead of the regular installment agreement requested by the taxpayer. Additionally, the IRS will look at the language on the various forms and IRS.gov (the public IRS web site) to ensure the taxpayer is aware of the cost of establishing an installment agreement. However, IRS officials disagreed with our reported outcome measure because they do not believe all taxpayers would have waived appeal rights to avoid paying an installment agreement user fee.

Office of Audit Comment: TIGTA maintains the reported outcome measure is reasonable. TIGTA agrees that it is unknown if all taxpayers would have waived appeal rights, which is why the outcome measure is reported as “potential.”

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether streamlined installment agreement[1] requirements are consistently applied. In addition, we evaluated defaulted streamlined installment agreements for potential improvements. To accomplish the objective, we:

I. Determined whether requirements were followed when accepting streamlined installment agreements and if the requirements promote efficient collection of the balance due.

   A. Reviewed related Internal Revenue Manuals and interviewed policy analysts to clarify the criteria for the streamlined installment agreements.

   B. Reviewed a valid statistical sample of 139 streamlined installment agreements accepted during the first 6 months of Fiscal Year 2010 (October 4, 2009, to April 3, 2010). The sample selected was based on random sampling techniques using random case selection from a population of 672,304 streamlined installment agreements accepted during the first 6 months of Fiscal Year 2010. The sample of 139 records was based on a confidence level of 95 percent with a ±5 percent precision level and an expected error rate of 10 percent. We over-selected cases from the population to ensure we had 139 true streamlined installment agreement cases.

   ***Validity and reliability of data from computer-based systems*:** We obtained streamlined installment agreement data processed by the IRS and stored on the Treasury Inspector General for Tax Administration Data Center Warehouse. We compared the data to information processed and stored in the Individual Master File and Business Master File. We used the tax return identification number as the control to validate the accuracy of the matching of the tax return information stored on the Master File and on the Integrated Data Retrieval System. The data were sufficiently reliable to perform our audit analyses.

   C. Reviewed each case and determined:

      1. Whether the streamlined installment agreement requirements were followed in accepting the installment agreement.

      2. The status of the taxpayers' payment compliance to date after acceptance of the streamlined installment agreements.

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[1] See Appendix V for a glossary of terms.

3. Whether the assessed balance due with the accruals would be fully paid within 60 months if the taxpayer complies with the streamlined installment agreement payment terms.
4. Whether taxpayers should have been given a short-term payment extension (120 days) instead of a streamlined installment agreement and avoided a user fee.

D. Reviewed each sampled case from Step I.B. and identified cases where the taxpayer defaulted on their streamlined installment agreements multiple times within a 12-month period and determined whether the IRS reinstated the agreement without a financial analysis or managerial approval.

E. Identified from the universe of streamlined installment agreements (as of July 2010) the volume of agreements with multiple terminations or defaults.

F. Identified from the universe of streamlined installment agreements (as of July 2010) the volume of agreements that fully paid their liabilities within 120 days and were assessed a streamlined installment agreement user fee.

G. Reviewed local procedures and desk guides used by the various Collection functions accepting the streamlined installment agreements and determined whether the procedures were consistent with the Internal Revenue Manual guidance.

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 SB/SE and W&I Divisions' policies, procedures, and practices for documenting the actions taken to accept a streamlined installment agreement. We evaluated these controls by interviewing IRS management and Collection function employees and reviewing a sample of streamlined installment agreement cases.

Appendix II

Major Contributors to This Report

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Carl Aley, Director
Glen J. Rhoades, Audit Manager
Michael A Garcia, Lead Auditor
Joseph P. Snyder, Lead Auditor
Doris Cervantes, Senior Auditor
Janis Zuika, Senior Auditor
Brian G. Foltz, Auditor

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
Director, Campus Compliance Services, Small Business/Self-Employed Division SE:S:CCS
Director, Collection, Small Business/Self-Employed Division SE:S:C
Director, Filing and Payment Compliance, Wage and Investment Division SE:W:CP:FPC
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

Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 15,037 taxpayers entered into installment agreements[1] when they had the potential to pay their tax liabilities in full and paid the costs of the installment agreement, which include the user fee, penalties, and interest (see page 6).
- Taxpayer Rights and Entitlements – Potential; $1,056,399 paid for installment agreement user fees in situations where the taxpayer had the potential to pay his or her tax liability in full within 120 days (see page 6).

Methodology Used to Measure the Reported Benefit:

We analyzed the population of 9,452,751 installment agreements as of July 2010 (or initiated between December 31, 1989, to July 26, 2010) to identify those agreements that were fully paid within 120 days of the taxpayer initiating the installment agreement. We identified 15,037 taxpayers who entered into an installment agreement and fully paid their liabilities, including penalties and interest, within 120 days of entering into the agreement. All 15,037 taxpayers were assessed an installment agreement user fee that ranged from $43 to $105. We identified a total of $1,056,399 in installment agreement user fees paid by the taxpayers who entered into an installment agreement but fully paid their liabilities within 120 days.

[1] See Appendix V for a glossary of terms.

Appendix V

Glossary of Terms

Accounts Management System/Desktop Integration – The system providing enterprise-enabled inventory workflow capability across operating divisions. As we approached the end of fieldwork for this review, Desktop Integration was merged with the Correspondence Imaging System in Accounts Management, and reports previously generated from the Desktop Integration System are now generated from the Accounts Management System/Desktop Integration.

Adjusted Gross Income – A taxpayer's income (including wages, interest, capital gains, income from retirement accounts, and alimony received) adjusted by specific deductions (including contributions to deductible retirement accounts and alimony paid).

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

Business Master File – The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

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 Area Offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.

Collection Statute Expiration Date – A time period established by law to collect taxes. The Collection Statute Expiration Date is normally 10 years from the date of an assessment.

Data Center Warehouse – Architecture used to maintain critical historical data that has been extracted from operational data storage and transformed into formats accessible to an organization's analytical community.

Individual Master File – The IRS database that maintains transactions or records of individual tax accounts.

Installment Agreements – Arrangements by which the IRS allows taxpayers to fully pay liabilities over time in smaller manageable payments.

Integrated Data Retrieval System – An 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.

Lien – A legal claim on an individual's property for payment or satisfaction of a tax debt. It attaches to all property or rights to property the taxpayer has or acquires, whether real and personal, tangible or intangible. The Notice of Federal Tax Lien is a document filed in State recording offices to make the tax liability public and protect the IRS's priority against other creditors of the taxpayer.

Streamlined Installment Agreement – An installment agreement for taxpayers with an aggregate unpaid balance of assessments of $25,000 or less which will be fully paid in 60 months. No managerial approval is required for streamlined installment agreements.

Appendix VI

Management's Response to the Draft Report

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

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

RECEIVED JUN 21 2011

JUN 20 2011

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Faris R. Fink *Faris R. Fink*
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Procedures Allowed Inconsistent Processing of Streamlined Installment Agreements (Audit # 201030017)

Thank you for the opportunity to review your draft report entitled, "Procedures Allowed Inconsistent Processing of Streamlined Installment Agreements." We appreciate TIGTA's acknowledgement that the streamlined installment agreement program is effective in bringing in large amounts of revenue while decreasing taxpayer burden. As you noted, approximately 3.1 million taxpayers entered into streamlined installment agreements during fiscal year 2010.

We agree that the payment amount should fully pay the entire liability, including accrued penalties and interest before the Collection Statute Expiration Date (CSED). We will review our current procedures to determine if changes are needed to ensure: the CSED is protected prior to establishing the agreement; and we are informing taxpayers that their streamlined agreements must be paid in 60 months. During the life of the agreement, the IRS sends monthly reminder notices to most taxpayers as well as an annual reminder notice to all taxpayers, both of which show the remaining balance owed. Additionally, in many cases the taxpayer will fully pay their liability with a refund offset or subsequent payment prior to the completion of the five year streamlined agreement.

We have established a task force to look at the installment agreement process, including the process for reinstating defaulted installment agreements. Once the task force has completed its review and submitted its findings, a decision will be made on implementing the recommendations.

Regarding the last recommendation, we agree to pursue further discussions with Counsel concerning whether or not the IRS can place the taxpayer in an extension to pay status when the liability will be paid within 120 days rather than entering into an

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installment agreement. It is important to note that a taxpayer only receives appeal rights if a formal installment agreement is established. Current guidance gives us no discretion to place the taxpayer into an extension to pay status. In addition, we will review the language on various forms and IRS.gov to ensure the taxpayer is aware of the options available for resolving their tax liability and the cost of each option.

In addition, we would like to comment on the outcome measures in your report. As you know, the IRS normally establishes the installment agreement if the taxpayer requests one and meets streamlined criteria. As noted earlier, approximately 3.1 million agreements were established last fiscal year which generated approximately $5.9 billion in revenue. The taxpayer is informed of the fee prior to the IRS establishing the installment agreement and has the opportunity to request an extension to pay. Out of the nearly 9.5 million installment agreements analyzed, some of the 15,037 taxpayers who paid a user fee but fully paid the liability within 120 days may have actually requested an installment agreement in order to protect their appeal rights. Therefore, although we agree that from a strictly monetary standpoint, the 15,037 taxpayers would have benefitted from an extension to pay, we do not agree that all 15,037 taxpayers would have waived their appeal rights in order to save the expense of the user fee. Attached is a detailed response outlining our corrective actions.

If you have any questions, please contact me, or a member of your staff may contact Cheryl M. Sherwood, Director, Campus Compliance Services at (202) 283-2200.

Attachment

Attachment

RECOMMENDATION 1:
The Director, Collection Policy, SB/SE Division, should clarify the streamlined installment agreement procedures to ensure that the payment amount will fully pay the entire liability, including future accruals of penalties and interest, before the Collection Statute Expiration Date and that taxpayers are aware they may have a significant balance due remaining at the end of the 60-month term.

CORRECTIVE ACTION:
The Director, Campus Compliance Services, SB/SE Division and the Director, Filing and Payment Compliance, W&I Division will consider clarification of the streamlined procedures to ensure that the entire liability is fully paid prior to the CSED and will review procedures concerning the information provided to taxpayers as to the payment terms of the installment agreement. However, the IRS sends the taxpayer a Monthly Installment Agreement Reminder Notice and an Annual Reminder Notice, both of which show the remaining balance owed by the taxpayer. Also, varying interest rates make it impossible to know the exact amount owed at the time an installment agreement is established.

IMPLEMENTATION DATE:
January 15, 2012

RESPONSIBLE OFFICIAL(S):
The Director, Campus Compliance Service, SB/SE Division and the Director, Filing and Payment Compliance, W&I Division

CORRECTIVE ACTION MONITORING PLAN:
The IRS will monitor this corrective action as part of its internal management system of controls.

RECOMMENDATION 2:
The Director, Campus Compliance Services, SB/SE Division, and the Director, Filing and Payment Compliance, W&I Division, should consider the results of the streamlined installment agreement task force and revise the procedures for reinstating taxpayers with a history of defaulting on their agreements.

CORRECTIVE ACTION:
The Director, Campus Compliance Services, SBSE Division and the Director, Filing and Payment Compliance, W&I Division agree to review and consider the results of the streamlined installment agreement task force dealing with procedures for reinstating taxpayers with a history of defaulting on their agreements.

IMPLEMENTATION DATE:
July 15, 2012

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RESPONSIBLE OFFICIAL(S):
The Director, Campus Compliance Services, SB/SE Division, and the Director, Filing and Payment Compliance, W&I Division

CORRECTIVE ACTION MONITORING PLAN:
The IRS will monitor this corrective action as part of its internal management system of controls.

RECOMMENDATION 3:
The Director, Campus Compliance Services, SB/SE Division, and the Director, Filing and Payment Compliance, W&I Division, should revise the streamlined installment agreement procedures to ensure taxpayers are informed about all payment options when the proposed payment will fully pay the liability within 120 days, regardless of how the request is being submitted (online, verbal, or written). This effort could consist of attempted taxpayer contact or a change to the Internet request screen and Form 9465 to allow the taxpayer to give the IRS permission to process the request as an extension to pay rather than an installment agreement if the agreed-to payment amount is sufficient.

CORRECTIVE ACTION:
The Director, Campus Compliance Services, SB/SE Division, and the Director, Filing and Payment Compliance, W&I Division, will pursue further discussions with Counsel to determine whether or not the IRS can establish the extension to pay instead of the regular installment agreement requested by the taxpayer. Additionally, we will look at the language on the various forms and irs.gov to ensure the taxpayer is aware of the cost of establishing an installment agreement.

IMPLEMENTATION DATE:
April 15, 2012

RESPONSIBLE OFFICIAL(S):
The Director, Campus Compliance Services, SB/SE Division, and the Director, Filing and Payment Compliance, W&I Division

CORRECTIVE ACTION MONITORING PLAN:
The IRS will monitor this corrective action as part of its internal management system of controls.