



*Trends in Criminal Investigation's
Enforcement Activities Showed
Improvements for Fiscal Year 2010, With
Gains in Most Performance Indicators*

July 25, 2011

Reference Number: 2011-30-068

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.

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HIGHLIGHTS

TRENDS IN CRIMINAL INVESTIGATION'S ENFORCEMENT ACTIVITIES SHOWED IMPROVEMENTS FOR FISCAL YEAR 2010, WITH GAINS IN MOST PERFORMANCE INDICATORS

Highlights

Final Report issued on July 25, 2011

Highlights of Reference Number: 2011-30-068 to the Internal Revenue Service Chief, Criminal Investigation.

IMPACT ON TAXPAYERS

Criminal Investigation's (CI) primary resource commitment is to develop and investigate legal source tax cases. The prosecution of these cases is key to supporting the Internal Revenue Service's (IRS) overall compliance goals, enhancing voluntary compliance with the tax laws, and promoting fairness and equity in our tax system. In addition, CI uses media and other outreach opportunities to deter financial crime and enhance voluntary tax compliance.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of TIGTA's Fiscal Year (FY) 2011 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives. The overall objective of this review was to provide a statistical portrayal with trend analyses of CI's enforcement activities for FYs 2006 through 2010.

WHAT TIGTA FOUND

In support of the IRS's overall effort to reduce the Tax Gap, CI achieved improved performance during FY 2010 by committing resources to legal and illegal source tax investigations and working with the IRS operating divisions to develop and investigate tax cases.

During FY 2010, CI received approximately \$658 million of the IRS's Operating Plan budget to fund the criminal investigation programs that explore potential criminal violations of the Internal Revenue tax laws, enforce criminal

statutes relating to these violations, and recommend prosecution as warranted.

CI surpassed its goals for FY 2010 by expending 71.2 percent of its time on total tax investigations, with 52.6 percent of that time devoted to legal source tax investigations. CI also reported that the number of legal source tax investigation initiations increased by 12.3 percent and the number of tax-related initiations increased by 10.6 percent. Further, the number of subjects convicted of legal source tax crimes increased 6.9 percent from FY 2009 and has increased 22.6 percent since FY 2006. Overall, the results validate that tax cases are a priority for CI.

In FY 2010, CI surpassed its goal of completing 3,900 investigations by completing 4,325. CI demonstrated efficiency in processing legal and illegal source investigations by reducing the average days elapsed to complete an investigation to 365 days, an 8.8 percentage improvement (rounded) from the FY 2009 average of 401 days. In addition, CI exceeded its FY 2010 goal of 4,000 initiated subject investigations by initiating 4,706. CI management attributes the increases to better management oversight, which includes stressing the need to complete initial interviews and fact gathering within the first few months of the investigation.

In addition, CI continues to work on increasing its special agent staffing and coordinating with the operating divisions to strengthen the Fraud Referral Program.

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 report comments.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 25, 2011

MEMORANDUM FOR CHIEF, CRIMINAL INVESTIGATION

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Trends in Criminal Investigation’s Enforcement Activities Showed Improvements for Fiscal Year 2010, With Gains in Most Performance Indicators (Audit #201130034)

This report presents the results of our review to provide a statistical portrayal with trend analyses of Criminal Investigation’s enforcement activities for Fiscal Years 2006 through 2010. This review was conducted as part of our Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

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

Copies of this report are also being sent to the IRS managers affected by the report.

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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Abbreviations

BPR	Business Performance Review
CI	Criminal Investigation
CIMIS	Criminal Investigation Management Information System
FTE	Full-Time Equivalent
FY	Fiscal Year
IRS	Internal Revenue Service
U.S.C.	United States Code
VDP	Voluntary Disclosure Program



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Background

In February 2006, the Internal Revenue Service (IRS) released updated compliance estimates showing that the gross Tax Gap¹ was \$345 billion in Tax Year 2001. In an explanation provided in the Criminal Investigation (CI) Program Assessment Rating Tool, Office of Management and Budget examiners noted that the IRS had a goal of reducing the percentage of taxpayers who believe it is acceptable to cheat on their taxes from 12 percent in Fiscal Year (FY) 2004 to 10 percent in FY 2010. However, the *2010 Taxpayer Attitude Survey*, conducted by the IRS Oversight Board, shows that taxpayers' attitudes are again at the 2004 level. According to survey results, 12 percent of the surveyed population believed that it was acceptable to cheat on their taxes, a slight decrease compared to 13 percent from the 2009 survey. In addition, 87 percent said it was not at all acceptable, compared to 84 percent in the 2009 survey. The IRS Oversight Board, which conducted the survey, did not offer any perspective on why taxpayers' attitudes towards cheating might have changed. The IRS Commissioner, while emphasizing a balanced program between taxpayer service and tax enforcement, stresses the need for an aggressive enforcement program for those who understand their tax obligations but fail to comply.

Eighty-seven percent of respondents to the IRS Oversight Board 2010 Taxpayer Attitude Survey responded it was not at all acceptable to cheat on your income taxes.

CI's primary mission is to serve the American public by investigating potential criminal violations of the Internal Revenue Code and related financial crimes (e.g., money laundering, corporate fraud, and terrorism financing) to promote compliance with the tax law and confidence in the United States' tax administration system. CI's special agents' investigative jurisdiction also includes tax money laundering and Bank Secrecy Act² laws. CI prepared a Strategic Assessment document for FYs 2007 to 2012 to supplement and implement the goals in the IRS's Strategic Plan. The compliance, business, and communication strategies of CI include:

- Maintaining focus on legal source tax investigations and partnering with the IRS operating divisions to deploy a successful Fraud Referral Program.
- Working effectively with the Department of the Treasury, the Department of Justice, and other law enforcement partners to combat corporate fraud, terrorism, and the financial aspects of other criminal activity and to enhance Bank Secrecy Act compliance efforts.

¹ See Appendix VI for a glossary of terms.

² Pub. L. No. 91-508, 84 Stat. 1114 (1970) (codified as amended in scattered sections of 12 U.S.C., 18 U.S.C., and 31 U.S.C.). Regulations for the Bank Secrecy Act, and other related statutes, are 31 C.F.R. §§ 103.11-103.77 (2009).



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- Increasing workforce productivity through improvements in recruitment, retention, and strengthened leadership.
- Increasing efficiency through improvements in business systems and the reduction of investigative cycle time.

Since FY 2004, we have been presenting an annual statistical portrayal of CI's enforcement activities.³ The objective of our first year's audit was to provide statistical information and trend analyses of CI's statistics since the issuance of the Webster Report⁴ in April 1999, which concluded that CI had drifted away from its primary mission of investigating criminal tax violations. Since then, our reports have focused on year-to-year statistical comparisons, as well as looking at trends over a protracted period, to provide perspective on CI's enforcement activities.

Our data analyses were performed in the Treasury Inspector General for Tax Administration's office in Atlanta, Georgia, during the period January through April 2011. We used national reports from CI's Management Information System (CIMIS) during our review. Because of time and resource constraints, we did not audit CI's system to validate the accuracy and reliability of its information. Also, we did not assess internal controls because it was not applicable within the context of our audit objective. Otherwise, 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 objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II. Detailed charts and tables referred to in the body of the report are included in Appendix IV. A glossary of terms is included in Appendix VI.

Most of the calculations throughout the report and Appendix IV 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 Treasury Inspector General for Tax Administration reports on CI trends. Appendix V presents a list of those reports.

³ For more information, see Appendix V, Report 1.

⁴ *Review of the Internal Revenue Service's Criminal Investigation Division* (Publication 3388; 4-1999), also known as the Webster Report.



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Results of Review

In support of the IRS's overall effort to reduce the Tax Gap, CI achieved improved performance during FY 2010 by committing resources to legal and illegal source tax investigations and working with the IRS operating divisions to develop and investigate tax cases. In addition, CI's Voluntary Disclosure Program⁵ (VDP) provided information on banks and professionals, including foreign professionals, who facilitate tax evasion. During FY 2010, CI received approximately \$658 million of the IRS's Operating Plan budget to fund the criminal investigation programs that explore potential criminal violations of the tax laws, enforce criminal statutes relating to these violations, and recommend prosecution as warranted. Figure 1 shows the dollars allocated to CI for completion of these programs.

**Figure 1: Comparison of CI Budget Allocations
for FYs 2006 through 2010**

CI Budget Allocation (Dollars in millions – Rounded)	2006	2007	2008	2009	2010
Appropriation	\$566	\$566	\$580	\$598	\$607
Reimbursable Resources	\$ 44	\$ 32	\$ 49	\$ 40	\$ 51
Total Resources	\$610	\$598	\$629	\$638	\$658

Source: IRS Chief Financial Officer.

CI's programs identify and document the movement of both legal and illegal sources of income in cases of suspected intent to defraud. These programs also include investigation and prosecution of tax and money laundering violations associated with narcotic organizations. In FY 2010, the IRS used 4,066 Full-Time Equivalent (FTE) positions to complete its criminal investigation programs.

Using its unique statutory jurisdiction and financial expertise, the IRS made significant contributions to important national law enforcement priorities. According to the FY 2010 Business Performance Review (BPR) document, CI improved its performance from the levels achieved in FY 2009 in the following key areas:

⁵ On March 26, 2009, the IRS Commissioner announced the VDP that permitted taxpayers with hidden assets and income offshore to come back into the tax system.



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- Completed more than 4,300 criminal investigations – an increase of 12.4 percent.
- Maintained a Department of Justice case acceptance rate of 93.9 percent and a United States Attorney case acceptance rate of 91.8 percent – increases of 2.2 and 3.1 percent, respectively.
- Achieved a conviction rate of 90.2 percent – an increase of 3 percent.
- Obtained 2,184 convictions – an increase of 3.8 percent.

CI's performance has improved despite a period of decrease in special agent staffing.⁶ Total special agent staffing has decreased 1.9 percent since FY 2006, but showed improvement from last year, increasing 1 percent from 2,725 in FY 2009 to 2,751 in FY 2010.⁷ Despite the overall decrease in staffing from FY 2006, CI saw improved ratings in its staffs' job satisfaction during the annual IRS All Employee Survey. When asked "Considering everything, how satisfied are you with your job?" 82 percent of respondents answered favorably – a 3 percent increase from FY 2009.

Criminal Investigation's Statistics Validate That Legal Source Tax and Tax-Related Investigations Are a Priority

In FY 2010, we reported improving trends in several areas, including the number of legal source tax investigation initiations, the number of tax-related initiations, and case completions. CI's Annual Business Plans have consistently described legal source tax investigations as a top investigative priority, and we agree that these investigations are an important component of all tax-related investigations.

CI surpassed its goals for FY 2010, which was to maintain a minimum 68 percent direct time on total tax investigations and 50 percent direct time on legal source tax investigations, which is a subset of total tax investigations. As shown in Figure 2, CI expended 71.2 percent of its time on total tax investigations, with 52.6 percent of that time devoted to legal source tax investigations.

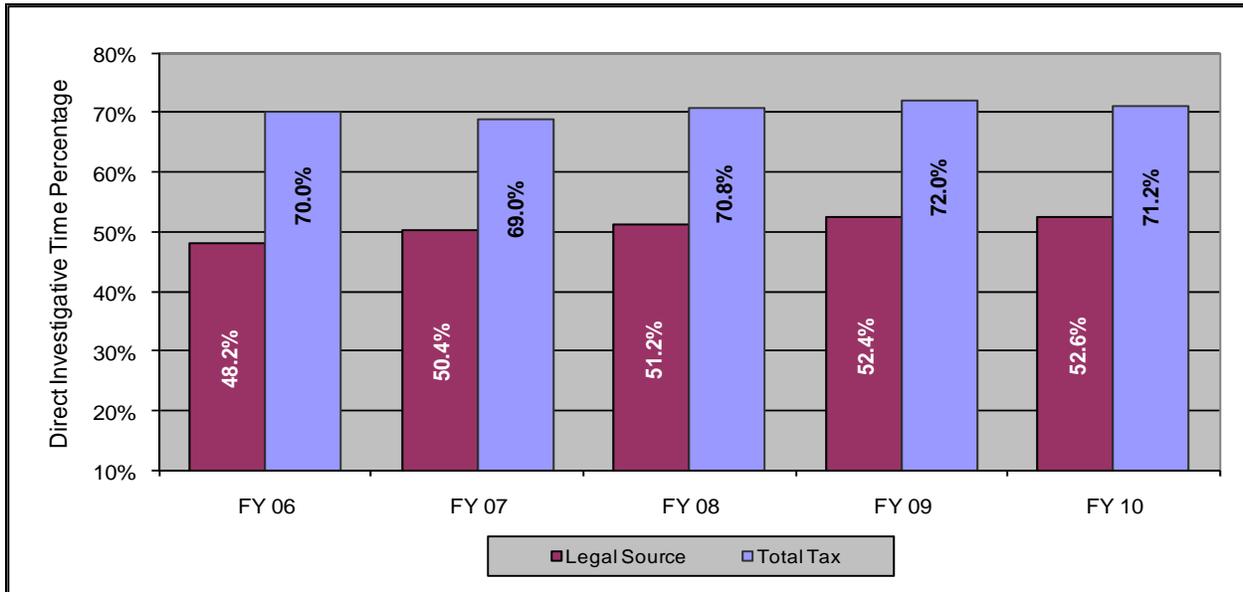
⁶ This decrease includes new recruits, part-time special agents, field and Headquarters Office managers and program analysts, and Lead Development Center and Scheme Development Center special agents.

⁷ See Appendix IV, Figure 1.



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Figure 2: Percentage of Direct Investigative Time Expended on Legal Source Tax and Total Tax Investigations Each Fiscal Year



Source: CI's BPR report for FY 2006 and CIMIS INV001 (CI Summary Statistics) for FYs 2007 through 2010 legal source data. The Total Tax computation was from CI's BPR reports.

In FY 2010, the number of legal source tax investigation initiations increased by 12.3 percent, and the number of tax-related initiations increased by 10.6 percent compared to FY 2009. However, the percentage of all initiations that were legal source tax and tax-related decreased by 0.7 and 2 percentage points, respectively.⁸ The decreased percentage of initiations that were legal source may impact CI's commitment of pursuing legal source tax and tax-related investigations as its top investigative priority.

In FY 2007, we raised a concern that a FY 2008 budget initiative to increase the direct investigative time on narcotics-related cases to a range of 12 to 14 percent would affect CI's ability to investigate legal source tax and tax-related crimes.⁹ CI subsequently established a targeted range of 11 to 13 percent. Last year, CI reported that narcotics-related direct investigative time was 11.5 percent. This year, CI again met its goal and reported an 11.2 percent rate. If CI can maintain narcotics-related direct investigative time at or below these current levels, then CI should maintain or see increased time applied towards its legal source tax and tax-related program areas.

⁸ See Appendix IV, Figures 4 and 5.

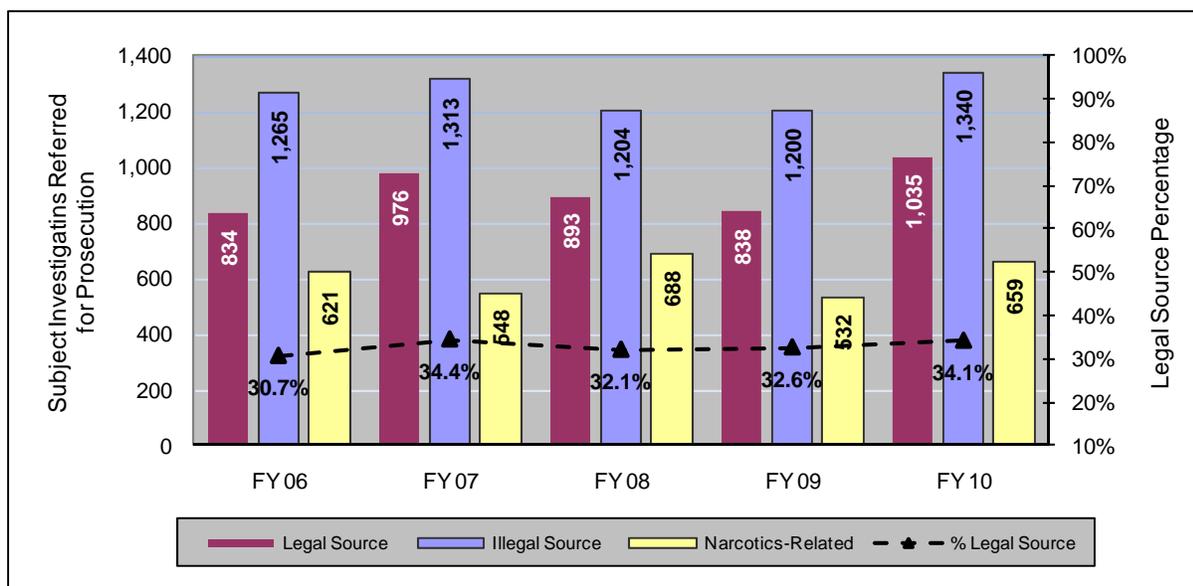
⁹ See Appendix V, Report 4.



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In FY 2010, the total number of investigations referred for prosecution increased by 18.1 percent from FY 2009. Because legal source tax and tax-related investigations comprise a subset of the total number referred for prosecution, these investigations also showed increases. As shown in Figure 3, the number of legal source tax investigations referred for prosecution increased 23.5 percent from FY 2009. In addition, tax-related investigations referred for prosecution increased 17.9 percent during this same time.¹⁰ The increase in investigations referred for prosecution may result in an increase in the number of subjects indicted for legal source tax or tax-related crimes next fiscal year.

Figure 3: Number of Subject Investigations Referred for Prosecution Each Fiscal Year by the Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes



Source: CIMIS Report INV002 (Summary by Program Area).

The number of subjects convicted of legal source tax crimes increased 6.9 percent from FY 2009 and has increased 22.6 percent since FY 2006.¹¹ However, the number of subjects sentenced for legal source tax crimes decreased 2.4 percent from FY 2009, and the number of subjects sentenced for a tax-related crime decreased 5.3 percent from FY 2009.¹² In addition, the percentage of all sentences that were for tax-related crimes was 48.5 percent, the lowest percentage in the last 5 years and a slight decrease from FY 2009.¹³ CI management attributes part of the decreases to the low number of investigation completions and prosecution

¹⁰ See Appendix IV, Figure 12.

¹¹ See Appendix IV, Figure 14.

¹² See Appendix IV, Figures 15 and 16.

¹³ See Appendix IV, Figure 15.



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recommendations experienced in FY 2009. We agree with CI that the cyclical nature of CI caseload impacts the investigative completion and prosecution rates. For example, decreases in investigations could result in subsequent decreases in the overall number of completed investigations 1 to 2 years later. The prosecution of legal source tax and tax-related investigations is key to supporting the IRS's overall compliance goals, enhancing voluntary compliance with the tax laws, and promoting fairness and equity in the tax system.

CI continues to emphasize publicizing its investigation results

In an effort to deter financial crime and enhance voluntary tax compliance, CI uses media and other outreach opportunities to maximize publicity of investigations. In FY 2010, CI representatives participated in more than 500 outreach events. Audiences included tax and accounting professionals, representatives from financial institutions, business and industry, government, educational institutions, and the public. Topics included general fraud awareness, tax and accounting fraud, money laundering, the Bank Secrecy Act, and other financial fraud.

CI continues to emphasize publicizing the results of tax prosecutions resulting from its tax investigations. This effort conveys to taxpayers that violations of the Internal Revenue Code and related financial crimes are investigated and prosecuted. The overall publicity rate for prosecutions in FY 2010 was 87.3 percent – an all-time high, and 9.3 percent higher than the targeted rate of 78 percent. The 92.4 percent publicity rate for legal source tax investigations is 4.5 percentage points higher than in FY 2009.¹⁴

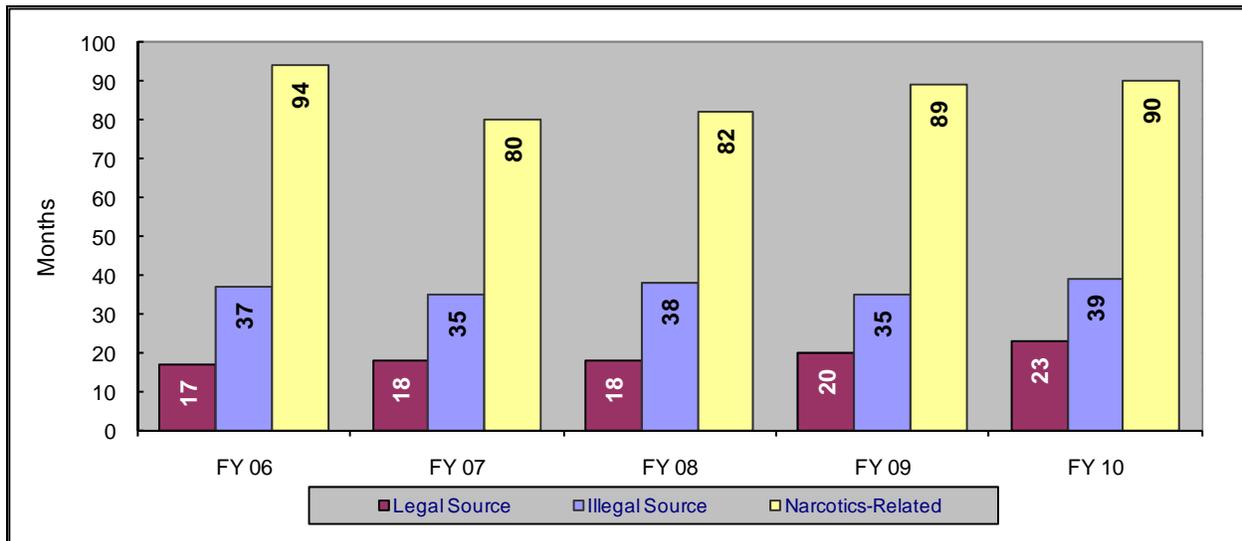
Research suggests that higher levels of criminal sentences lead to greater tax compliance. Figure 4 provides details of average incarceration periods for each of CI's Compliance Strategy Programs. The percentage increase in the number of months a subject is incarcerated for legal source tax investigations rose 35.3 percent (from an average of 17 to 23 months) between FYs 2006 and 2010. The incarceration time increased 5.4 percent (from an average of 37 to 39 months) for illegal source investigations; however, it decreased 4.3 percent (from an average of 94 to 90 months) for narcotics-related investigations between FYs 2006 and 2010. From FY 2009 to FY 2010, the incarceration rate increased 11.4 percent for illegal source investigations and 1.1 percent for narcotics-related investigations.

¹⁴ See Appendix IV, Figure 17.



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Figure 4: Average Number of Months a Subject Is Incarcerated* Each Fiscal Year by Compliance Strategy Program



* Incarcerated may include prison time, home confinement, electronic monitoring, or a combination thereof.
Source: CIMIS Report INV002 (Summary by Program Area).

Changes in Management Oversight Resulted in Increased Initiations and Completions

In FY 2009, we expressed concerns that CI would not meet its case completion¹⁵ goals due to the loss of experienced special agents along with the increased emphasis it planned to give to reduce its pipeline inventory.¹⁶ To address this condition, CI lowered its completion goal by 2.5 percent, from 4,000 to 3,900. Although CI did not meet its goal to complete 3,900 investigations in FY 2009, it did surpass the FY 2010 goal of 3,900 by completing 4,325 investigations. CI management attributes this increase to better management oversight, which includes stressing the need to complete initial interviews and fact gathering within the first few months of the investigation. For example, CI management is emphasizing that special agents complete key interviews within the first 180 days of subject criminal investigations so that go/no-go decisions can be made quicker.

CI exceeded its FY 2010 goal of 4,000 initiated investigations. Specifically, 4,706 subject investigations were initiated, representing a 14.2 percent increase from the FY 2009 total of 4,121.¹⁷ In addition, the number of subject investigations open in inventory increased 9.7 percent

¹⁵ CI considers a completed case one it either discontinues or refers for prosecution.

¹⁶ See Appendix V, Report 6.

¹⁷ See Appendix IV, Figure 3.



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from the FY 2009 total of 3,976 investigations.¹⁸ According to the FY 2010 BPR document, CI plans to complete 3,900 investigations and obtain 2,135 convictions in FY 2011. CI management expects that the 14.2 percent increase in initiations it experienced this fiscal year will provide for a future increase in completions and resulting convictions. Because CI reported that it took, on average, less than 1 year (306 days) to refer a case for prosecution,¹⁹ we believe the increase in initiations contributed to CI exceeding its FY 2010 completion goals by 12.4 percent.

**CI exceeded its
FY 2010 goal of 4,000 by
initiating 4,706 subject
criminal investigations.**

Efforts Continue to Increase Special Agent Staffing

Although total special agent staffing has decreased 1.9 percent since FY 2006, it showed improvement from last year, increasing 1 percent from 2,725 in FY 2009 to 2,751 in FY 2010.²⁰ The number of field special agents decreased 2.9 percent from FY 2006, but has increased by 9 percent from FY 2009. However, these increases do not represent an increase in fully trained agents ready to work on investigations. According to CI personnel, in FY 2010 there were 111 newly hired agents (still undergoing extensive training)²¹ and a loss of 146 experienced agents. Due to the costs associated with increased hiring at the end of FY 2009, CI was unable to achieve attrition hiring in FY 2010. Increasing special agent staffing remains a challenge as CI continues to lose experienced special agents to attrition faster than they can be replaced. CI hopes to achieve attrition hiring in FY 2011. However, we are concerned that the continued net loss of experienced special agents will negatively affect CI's productivity in the near future.

Trends related to the number of investigations per special agent

CI uses the average inventory of subject investigations per special agent²² and the average total inventory per special agent to measure the quantity of work performed by special agents. The average inventory calculation includes only open subject investigations, whereas the total inventory calculation includes primary investigations, open subject investigations, and pipeline subject investigations. Figure 5 shows the average inventory of subject investigations per special agent was 1.92 in FY 2010, a 1.05 percent increase from 1.90 in FY 2009, and an increase of 9.09 percent from 1.76 in FY 2006. The total average inventory per special agent decreased

¹⁸ See Appendix IV, Figure 8.

¹⁹ See Appendix IV, Figure 11.

²⁰ See Appendix IV, Figure 1.

²¹ CI personnel indicated that the full benefit of new hires, in terms of production ability, is generally not realized for 1 year. This is because academy training lasts for approximately 6 months and then new agents are assigned an on-the-job training coach.

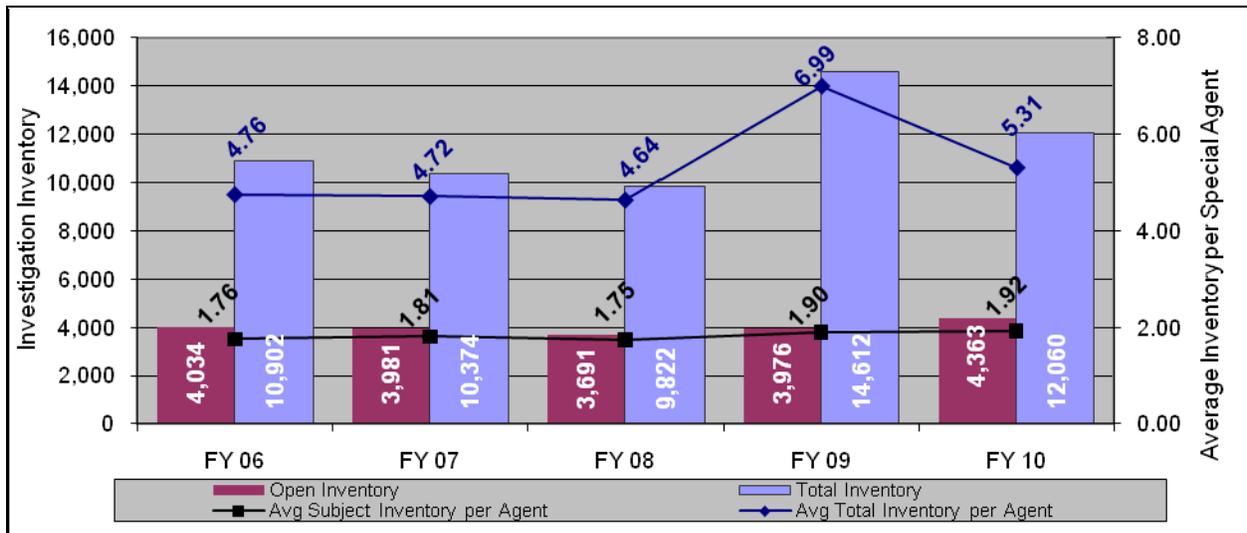
²² CI considers only those special agents that were actively working on investigations in these calculations.



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significantly to 5.31, representing a 24 percent decrease from 6.99 in FY 2009; however, FY 2010 average inventory represents an 11.55 percent increase from 4.76 in FY 2006.

Figure 5: The Number of Open Subject Investigations, the Total of All Investigations at the End of Each Fiscal Year, and the Average Inventory per Special Agent



Source: CI's analysis of the CIMIS.

Efficiency Gains Reduce Investigation Time

CI continues to demonstrate efficiencies in processing legal and illegal source investigations by showing improvements in the number of elapsed days to complete an investigation. CI's benchmark figure for legal and illegal source investigation completions is 415 to 425 days. In FY 2010, CI reported an average of approximately 365 days for legal and illegal source investigation completions, 12 percent below the benchmark and an 8.8 percent improvement from the FY 2009 average of 401 days. The average elapsed days to recommend a legal or illegal source investigation for prosecution improved to 350 days, down from 394 days in FY 2009. In addition, the FY 2010 average of 398 days to discontinue a legal or illegal source investigation was below the 413 day average in FY 2009 by 3.7 percent. CI management attributes the improvements in part to its increased emphasis to getting back to basics, which focuses the agents on developing cases with better prosecution potential.

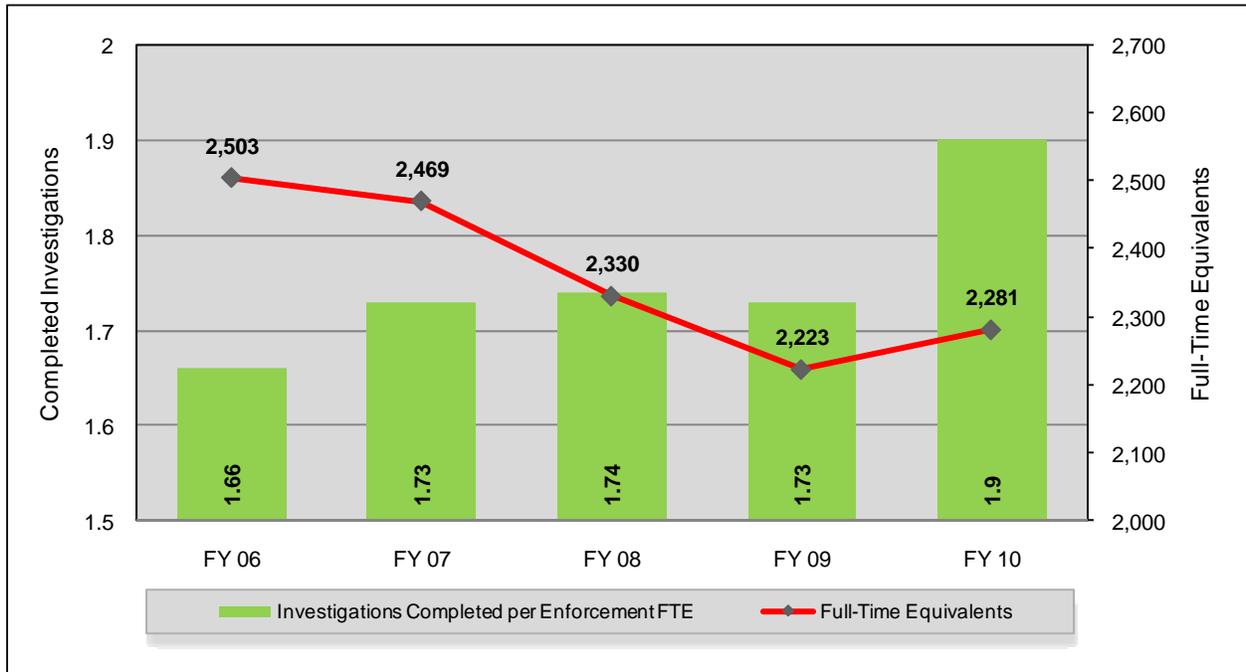
Special agents completed 1.9 investigations per Enforcement FTE during FY 2010, compared to 1.73 investigations during FY 2009. Figure 6 shows an increase of 2.6 percent (2,223 to 2,281) in FTEs directly related to CI's enforcement activities in FY 2010. The increase in FTEs follows decreases since FY 2006 directly associated with CI's enforcement activities. CI experienced the



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increases in completed investigations even though the number of special agents on the rolls decreased by 2 percent during FY 2010.

Figure 6: Comparison of Investigations Completed Per Enforcement FTE by Fiscal Year



Source: CI's BPR reports.

Further, CI experienced a lower cost per conviction of \$324,776 than the planned amount of \$331,000. CI uses this figure to measure its Program's effectiveness and calculates the amount by using its financial plan (i.e., the money allocated for its operations) divided by the number of convictions. CI also uses the number of convictions and the conviction rate as budgetary performance measures. Based on the improvements cited previously, we are encouraged by CI management's efforts to reduce the elapsed days needed to complete an investigation and believe that their new focus on oversight should continue to bring improvements.

Criminal Investigation Is Strengthening Its Fraud Referral Program to Increase Investigations

CI's FY 2011 Annual Business Plan continues the commitment to focus on the delivery of high-impact, high-quality investigations by working closely with the IRS operating divisions to develop and investigate significant tax cases. The

CI is working closely with IRS operating divisions to strengthen its Fraud Referral Program.



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Fraud Referral Program is seen as one of the key sources of high-income tax fraud investigations, along with the Questionable Refund and the Return Preparer Programs. The VDP and the IRS's International activities are other sources for potential investigations. CI's commitment helps the IRS's overall efforts to reduce the Tax Gap. CI and the operating divisions need to continue to emphasize the importance of these types of investigations as they relate to tax administration and the IRS's efforts to improve voluntary compliance.

Increases in internal fraud referrals during FY 2010

Fraud referrals remain a viable and important source of legal source income tax investigations, and we are encouraged by increases in CI's FY 2010 investigations, as well as the results of the VDP and advances in the international area. The percentage of subject investigations originating from within the IRS increased slightly to 33.6 percent in FY 2010 compared to 33 percent in FY 2009.²³ CI reported receiving 539 fraud referrals in FY 2010, a 6.7 percent increase from the 505 received in FY 2009.²⁴ The number of fraud referrals received by CI increased after 2 consecutive years of decreases. CI personnel attribute the improvement to CI's efforts to increase outreach with other IRS operating divisions, biannual compliance council meetings, and assistance in Fraud Technical Advisor training development and delivery.

There are far more compliance employees than law enforcement officers in the IRS. At the end of FY 2010, IRS compliance employees included 11,648 Revenue Agents, 4,068 Revenue Officers, and 1,400 Tax Compliance Officers compared to 2,738 IRS law enforcement employees. IRS compliance employees represent the front line of contact with many of America's taxpayers (or, as is occasionally the case, non-taxpayers), and can reach many more people than CI special agents. In April 2009 and in conjunction with IRS operating divisions, CI issued a "How to Write a Criminal Fraud Referral" reference guide for compliance employees.

CI management stated that better communication and collaborative efforts have yielded an increase in quality referrals with viable criminal potential. In addition, CI consistently emphasizes the importance of fraud referrals and their timely evaluation within 30 workdays. The increased emphasis on fraud referrals appears to have been a positive factor in some key performance measures from the FY 2009 results. Specifically:

- Subject Criminal Investigations initiated increased 8.7 percent.
- Prosecution Recommendations increased 17.3 percent.
- Convictions increased 23.4 percent.

²³ See Appendix IV, Figure 6.

²⁴ See Appendix IV, Figure 7.



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Results of the VDP

The IRS's VDP provides a way for taxpayers with previously undisclosed income to contact the IRS and resolve their tax matters. CI is the key entry point, through the VDP, for noncompliant taxpayers to get back into the tax system. During FY 2010, the VDP provided information on banks and professionals, including foreign professionals, who facilitated tax evasion. More than 15,000 Americans, with offshore accounts holding millions of dollars, came forward to disclose information during the voluntary disclosure period that ended in October 2009, bringing noncompliant taxpayers back into the United States tax system. Since October 2009, an additional 3,000 Americans came forward with accounts at various banks.

The VDP did not apply to taxpayers whose income was derived from illegal activities. Tax professionals and individuals who wanted to initiate a voluntary disclosure were directed to contact their nearest CI office. During FY 2010, the IRS began reviewing the information from Program participants to identify financial institutions, advisors, and others who promoted or otherwise helped Americans hide assets and income offshore. CI plans to use the data and leads from the voluntary disclosures in investigations and prosecutions of major violators.

Advances in International Operations

In support of CI's mission, the Office of International Operations' purpose is to ensure international law enforcement cooperation between foreign governments and CI field offices as it relates to investigating potential criminal violations of the Internal Revenue Code and related financial crimes. During the week of August 17, 2010, the Office of International Operations held an all-employee meeting in preparation for its organizational standup on October 1, 2010. CI's entire International team (consisting of headquarters, overseas, and training staff) convened to discuss the structure,

***CI's International team is
focused on providing
investigative support to
the local field office and
developing international cases.***

vision, and expectations for the newly established office, with a focus on providing investigative support to the local field office and international case development.

The Office of International Operations disseminated procedures and policies designed to enhance investigation support and international case development. These include the use of an online international assistance process to enhance and streamline investigative support. For example, when CI special agents in the field need assistance from a foreign country, they can fill out an online request form that is routed to the Office of International Operations. The Office reviews and assigns the request to CI attachés around the world. CI attachés work the requests through appropriate channels and provide resources to the field agents.

In March 2010, CI established a definition for international investigations to more effectively identify and track these types of cases. Cases that meet the definition of an international investigation are:



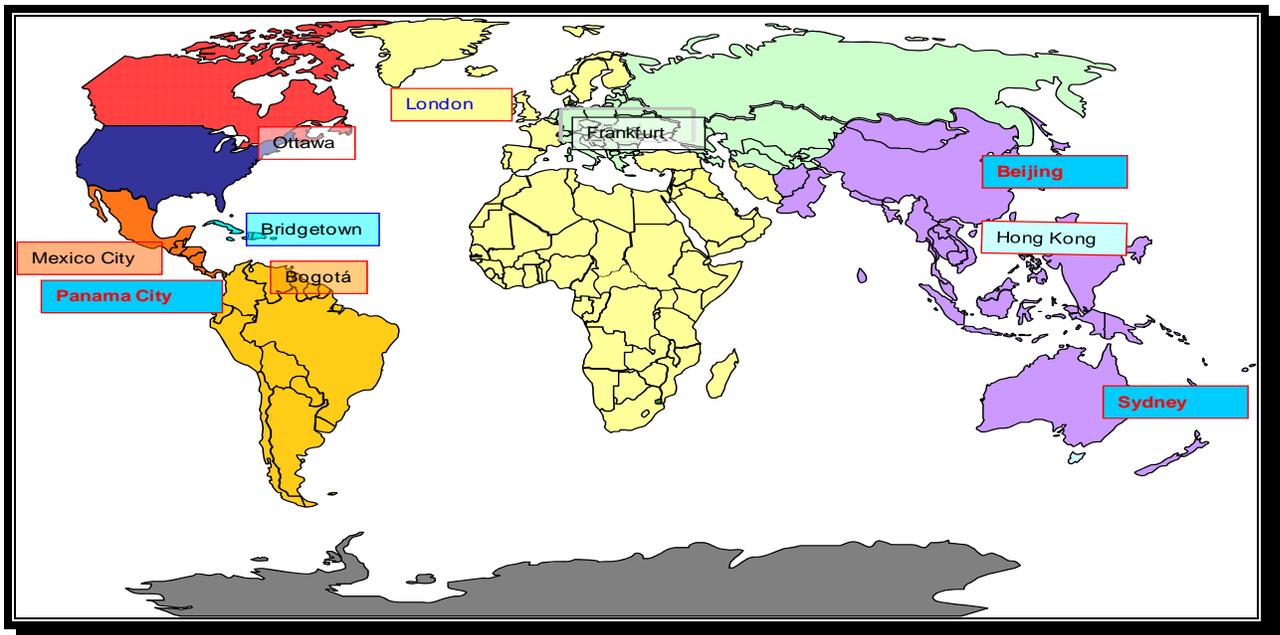
Trends in Criminal Investigation's Enforcement Activities Showed Improvements for Fiscal Year 2010, With Gains in Most Performance Indicators

- Any investigation containing international transactions and/or international components that are a substantial part of the investigation or substantially enhance the outcome of the investigation.
- Any person or entity that directs, promotes, or is used to promote a tax evasion scheme of which international transactions are an integral part of the scheme.

CI uses these definitions to identify international cases and track them through the CIMIS. CI's fourth quarter BPR report shows there were 327 international investigations in its open inventory and 351 international subject criminal investigations initiated. An Office of International Operations' executive stated that the Office's policies and procedures will be refined and adapted as necessary in FY 2012 and a baseline for performance measures will be established for international investigations.

CI has established international posts in 10 cities worldwide. Figure 7 shows the geographical locations of these 10 posts of duty for special agent attachés (i.e., Sydney, Australia; Bridgetown, Barbados; Ottawa, Canada; Beijing and Hong Kong, China; Bogota, Columbia; London, England; Frankfurt, Germany; Mexico City, Mexico; and Panama City, Panama).

Figure 7: Criminal Investigation's International Posts



Source: CI Headquarters.



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Conclusion

During FY 2010, CI committed to focus its resources on the delivery of high-impact, high-quality investigations. Our results showed CI achieved improved performance by committing resources to legal and illegal source tax investigations and working closely with the IRS operating divisions to develop and investigate tax cases. CI made changes to its oversight procedures and achieved increases in case initiations and completions, although special agent staffing increased only slightly from FY 2009 levels. CI implemented a back-to-basics approach to focus the special agents on developing cases with better prosecution potential and realized efficiency improvements in the average number of days to recommend legal and illegal source investigations for prosecution. Finally, CI is working to strengthen its fraud referral program and emphasize the VDP and, starting October 1, 2010, CI stood up the Office of International Operations. CI's combined commitments help the IRS's overall efforts to reduce the Tax Gap.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide a statistical portrayal with trend analyses of CI's enforcement activities for FYs 2006 through 2010.

To accomplish our objective, we relied on information accumulated by the IRS and CI in established reports and from the CIMIS. We did not verify the accuracy of the information. The major issues we focused on included:

- Special Agent¹ Staffing.
- Investigations:
 - a. Initiated.
 - b. Open.
 - c. In Pipeline.
 - d. Closed.
 - e. Referred for Prosecution.
- Subsequent Legal Actions.
- Compliance Strategy Programs.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We did not assess internal controls because doing so was not applicable within the context of our objective.

¹ See Appendix VI for a glossary of terms used in this report.



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Appendix II

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Director, Strategy, Criminal Investigation SE:CI:S
Director, Operations Policy and Support, Criminal Investigation SE:CI:OPS
Chief Counsel CC
National Taxpayer Advocate TA
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Director, Office of Program Evaluation and Risk Analysis RAS:O
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Figure 5 – Number of Subject Investigations Initiated Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes Page 23

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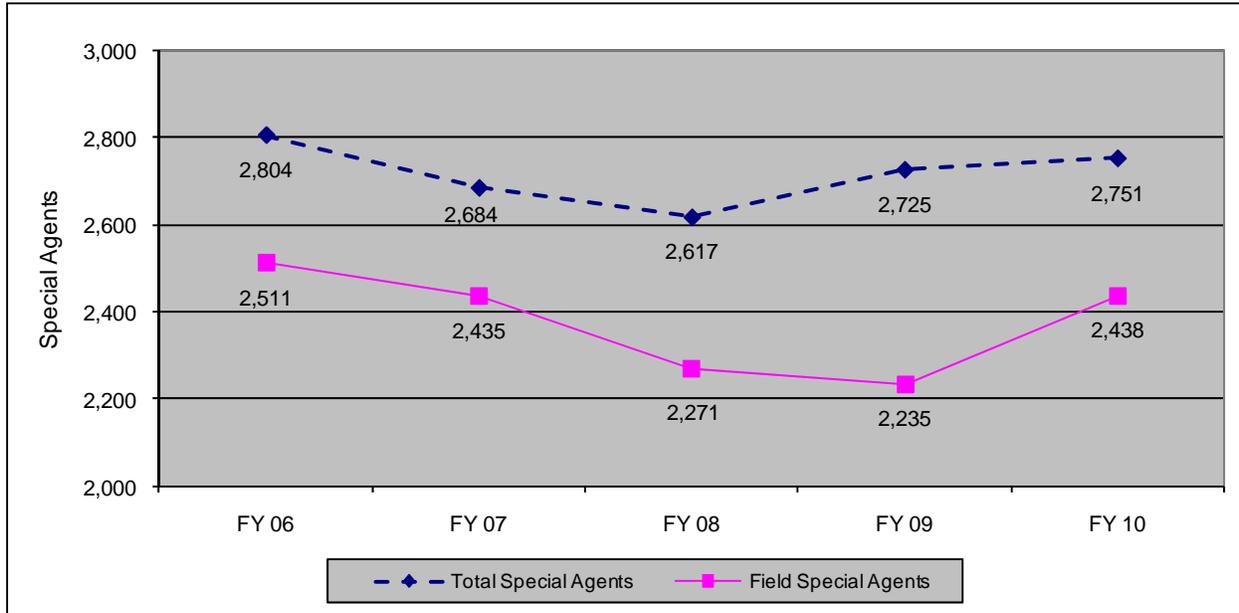
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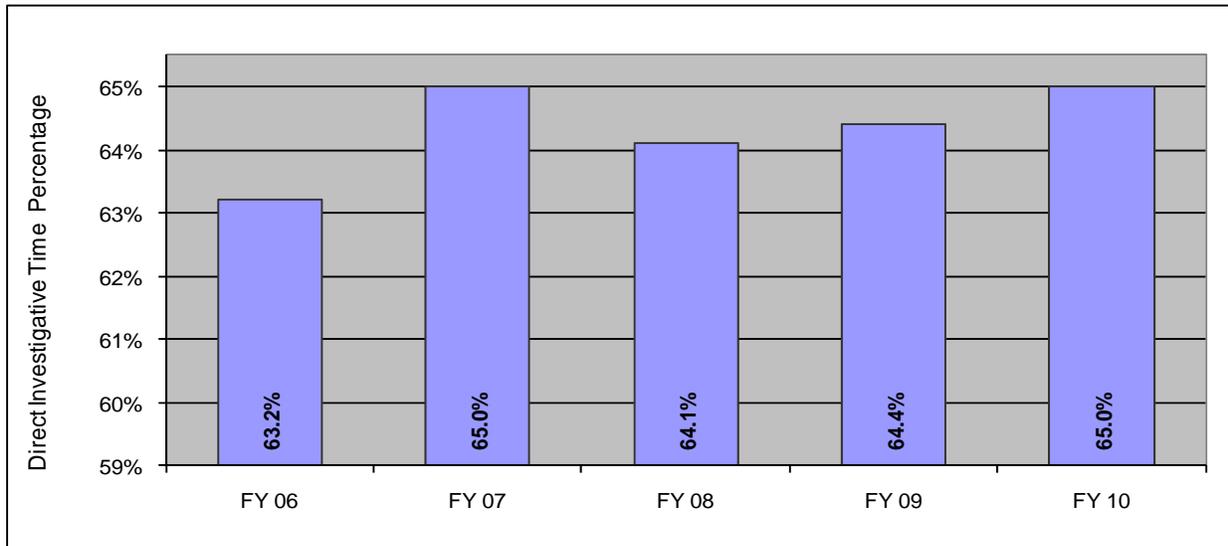
Trends in Criminal Investigation's Enforcement Activities Showed Improvements for Fiscal Year 2010, With Gains in Most Performance Indicators

Figure 1: Total Special Agent and Field Special Agent Staffing at the End of Each Fiscal Year.



Source: CI's analysis of staffing information.

Figure 2: Percentage of Special Agent Direct Investigative Time Expended Each Fiscal Year.

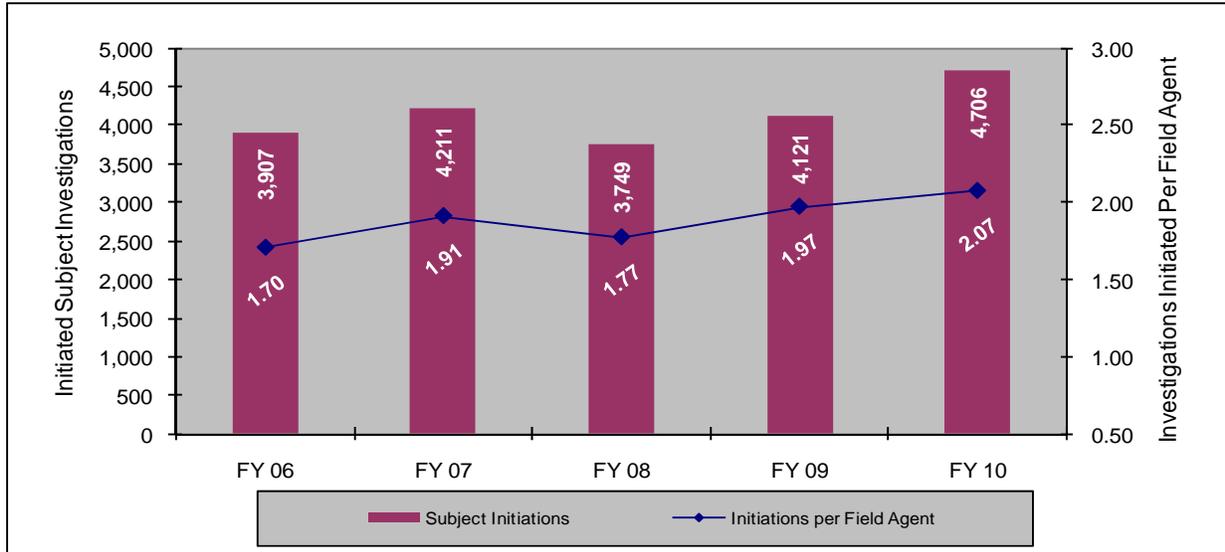


Source: CIMIS Report INV001 (Criminal Investigation Summary Statistics).



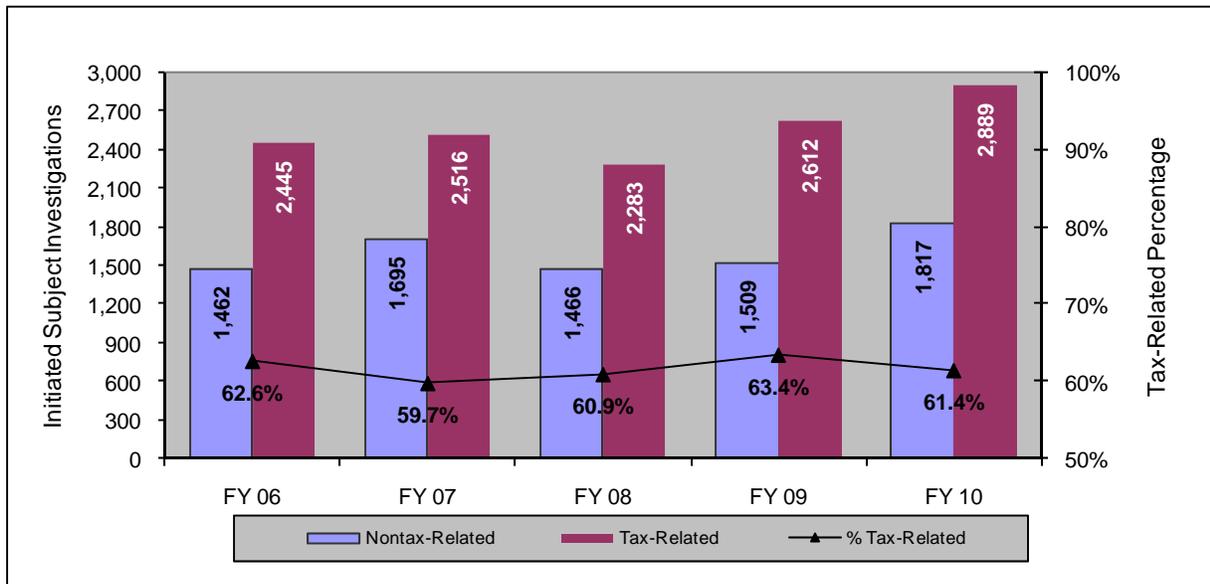
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Figure 3: Number of Subject Investigations Initiated and the Number Initiated per Field Agent Each Fiscal Year.



Source: CIMIS Report INV002 (Summary by Program Area) and our analysis based on the number of field special agents provided by CI.

Figure 4: Number of Subject Investigations Initiated Each Fiscal Year for Tax-Related or Nontax-Related Violations and the Percentage That Is Tax-Related.

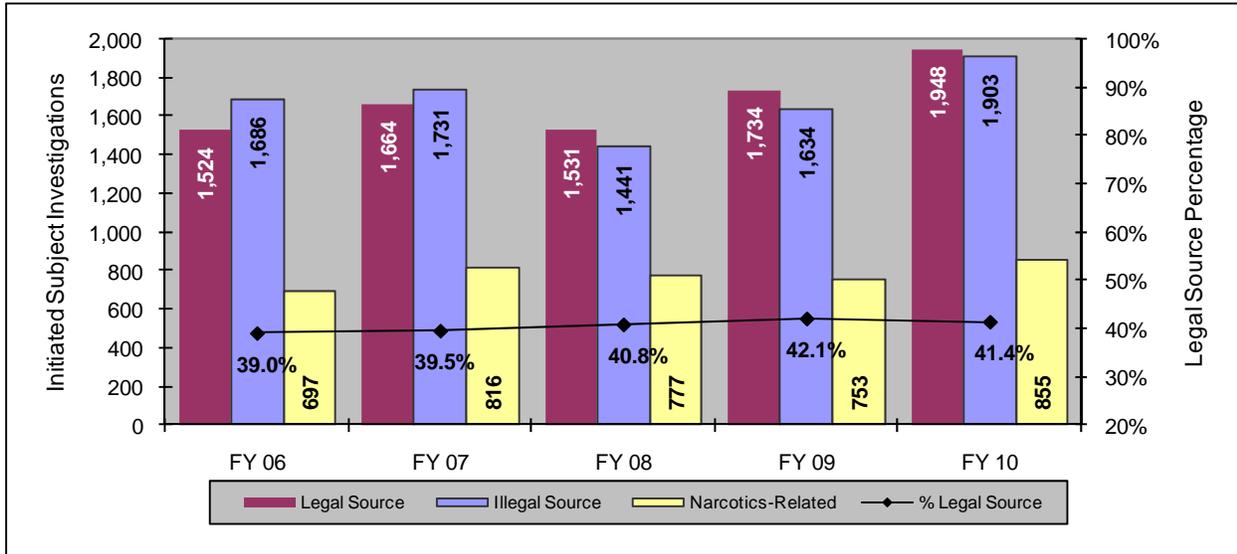


Source: CIMIS Report INV002 (Summary by Program Area).



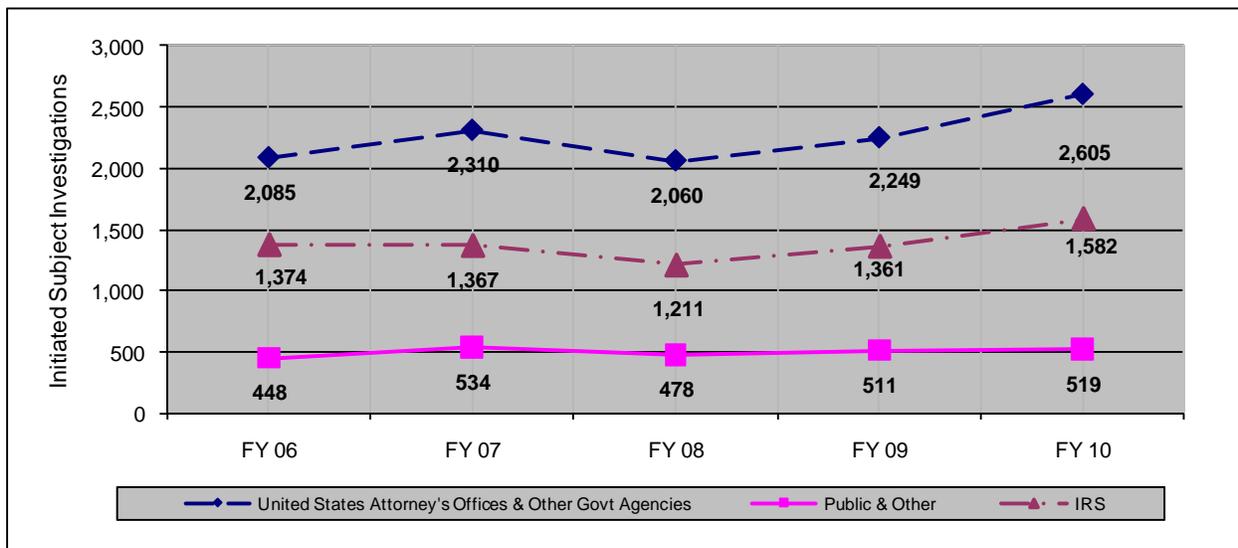
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Figure 5: Number of Subject Investigations Initiated Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes.



Source: CIMIS Report INV002 (Summary by Program Area).

Figure 6: Number of Subject Investigations Initiated Each Fiscal Year by Source of the Allegation or Information. IRS sources include fraud referrals from the compliance divisions, investigations developed by the Fraud Detection Centers, and currency transactions.

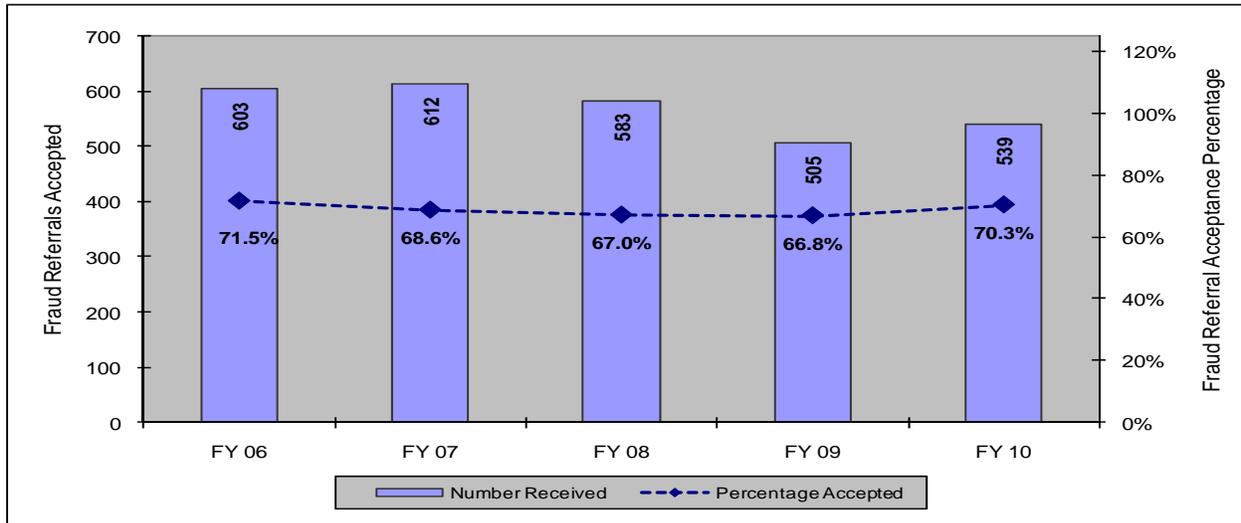


Source: CI's analysis of the CIMIS.



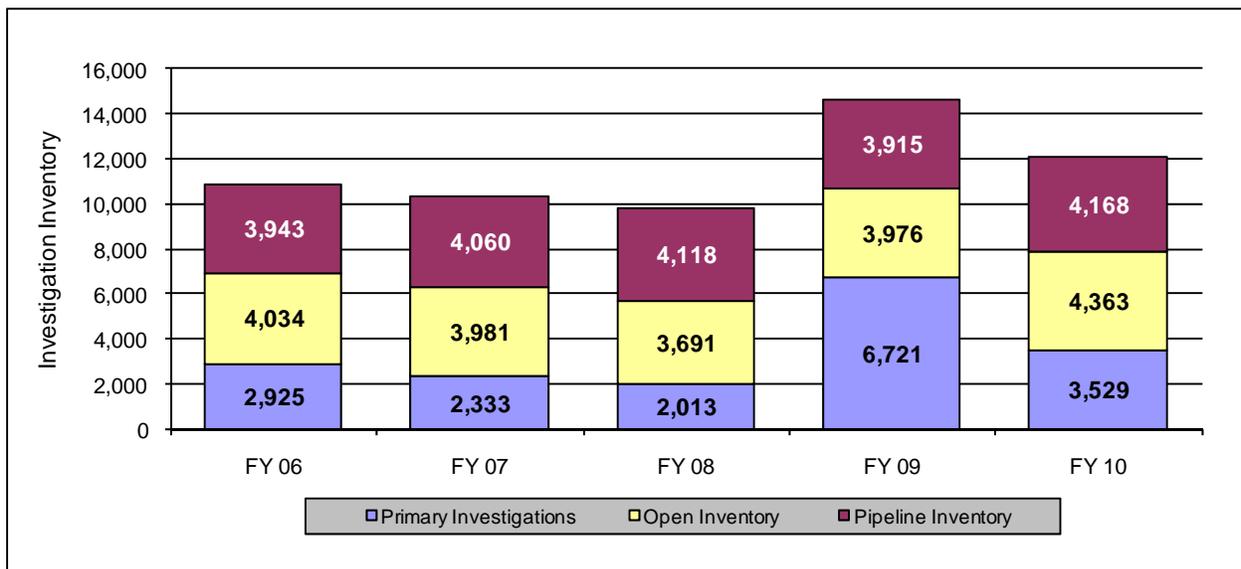
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Figure 7: Number of Fraud Referrals Received Each Fiscal Year and the Percentage Accepted.



Source: CIMIS Report INV001 (Criminal Investigation Summary Statistics).

Figure 8: Number of All Types of Investigations Open at the End of Each Fiscal Year.

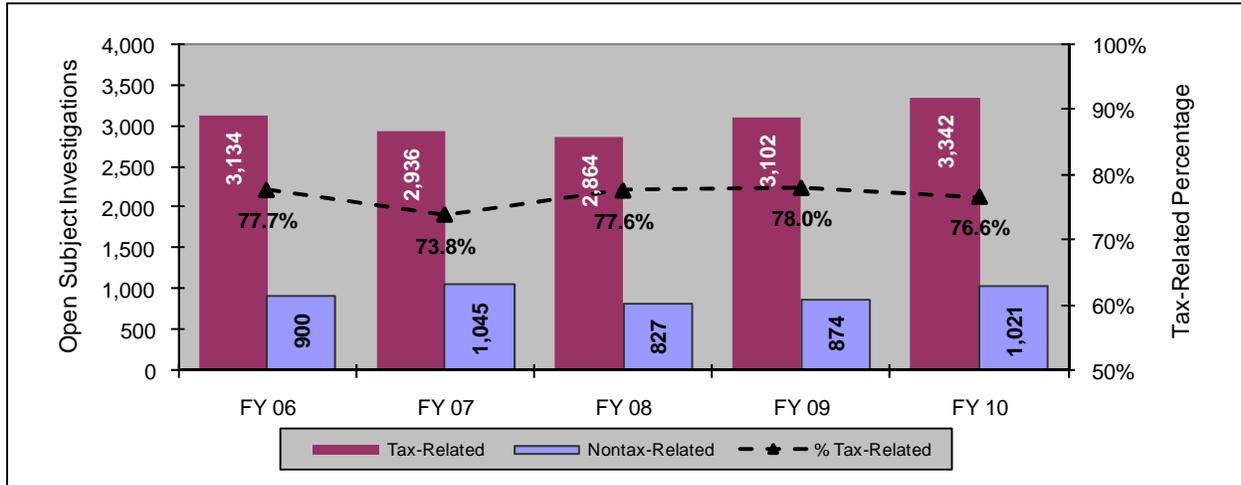


Source: CI's analysis of the CIMIS. CI's FY 2010 primary investigation inventory includes 1,044 cases as a result of the IRS's VDP.



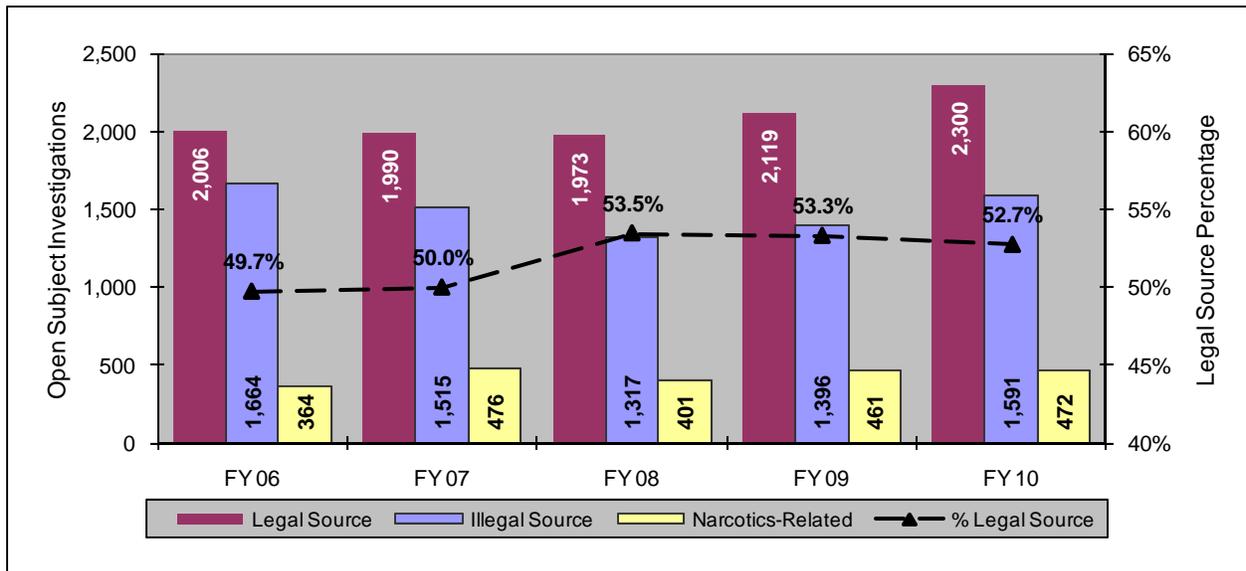
Trends in Criminal Investigation's Enforcement Activities Showed Improvements for Fiscal Year 2010, With Gains in Most Performance Indicators

Figure 9: Number of Open Subject Investigations Each Fiscal Year for Tax-Related or Nontax-Related Violations and the Percentage That Is Tax-Related.



Source: CIMIS Report INV002 (Summary by Program Area).

Figure 10: Number of Open Subject Investigations Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes.

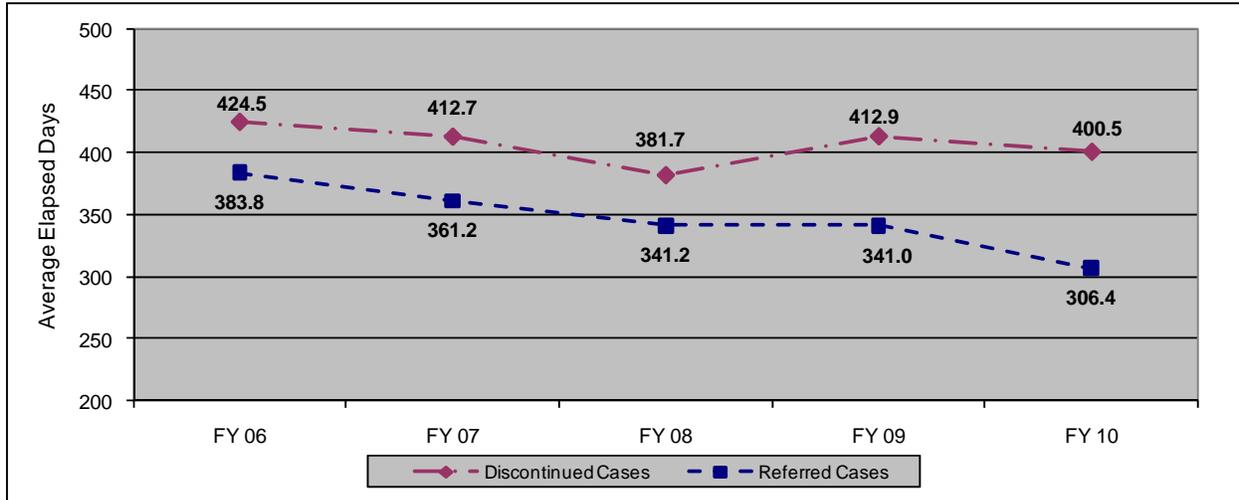


Source: CIMIS Report INV002 (Summary by Program Area).



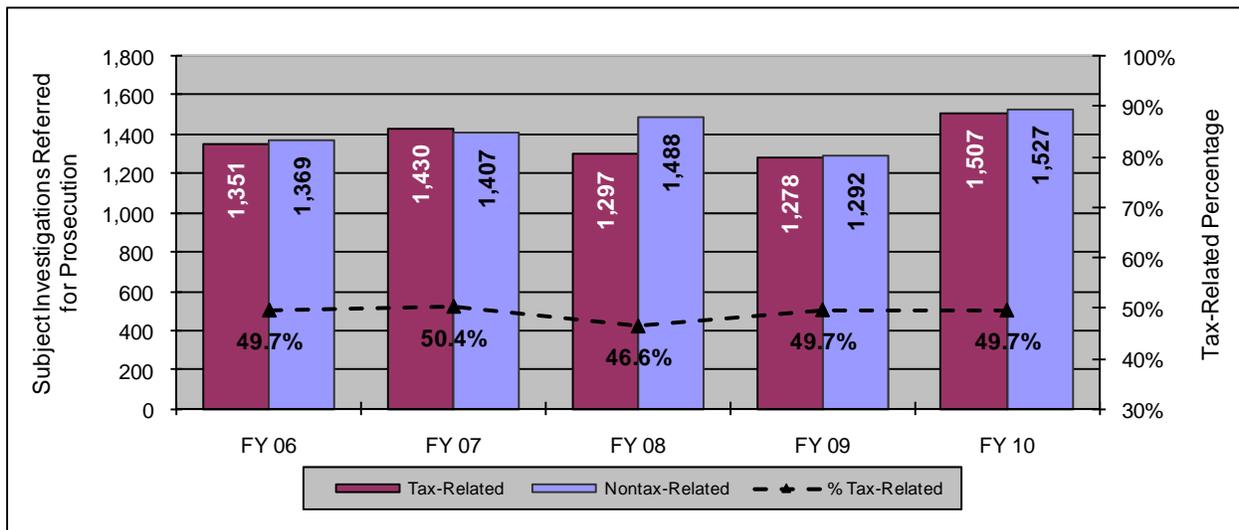
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Figure 11: Average Elapsed Days of Subject Investigations Discontinued and Referred for Prosecution Each Fiscal Year.



Source: CI's analysis of the CIMIS for FYs 2006 through 2007, CI's BPR report for FY 2008, and the CIMIS Report INV003 (Cycle Time Summary) for FYs 2009 and 2010.

Figure 12: Number of Subject Investigations Referred for Prosecution Each Fiscal Year for Tax-Related or Nontax-Related Violations and the Percentage That Is Tax-Related.

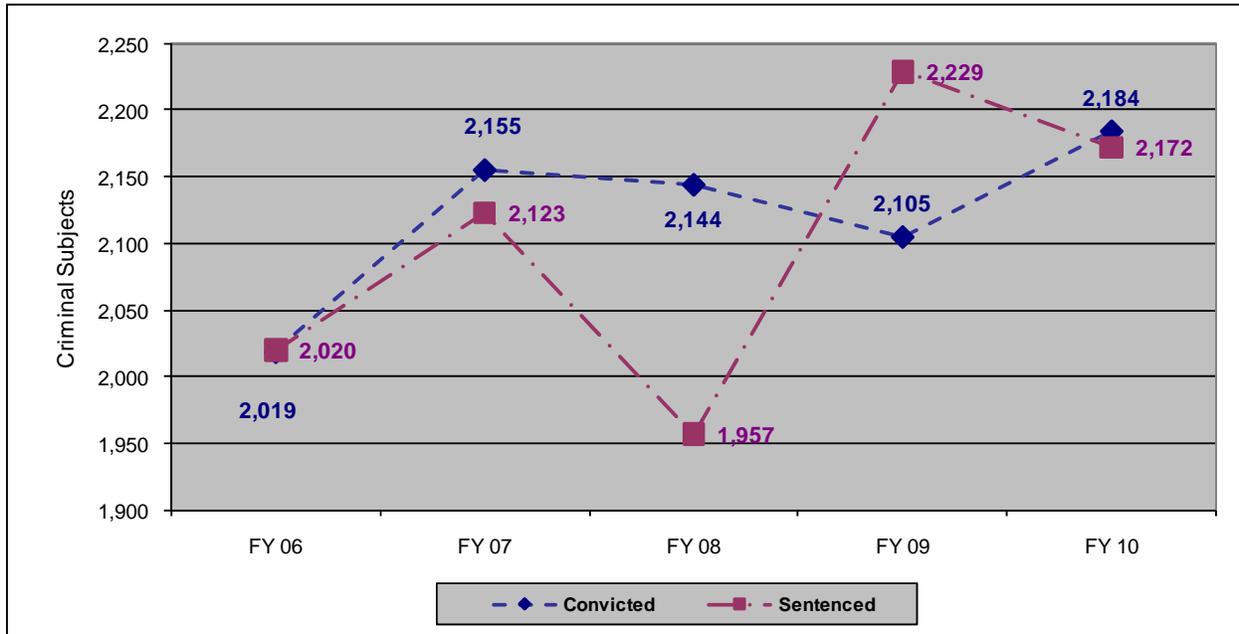


Source: CIMIS Report INV002 (Summary by Program Area).



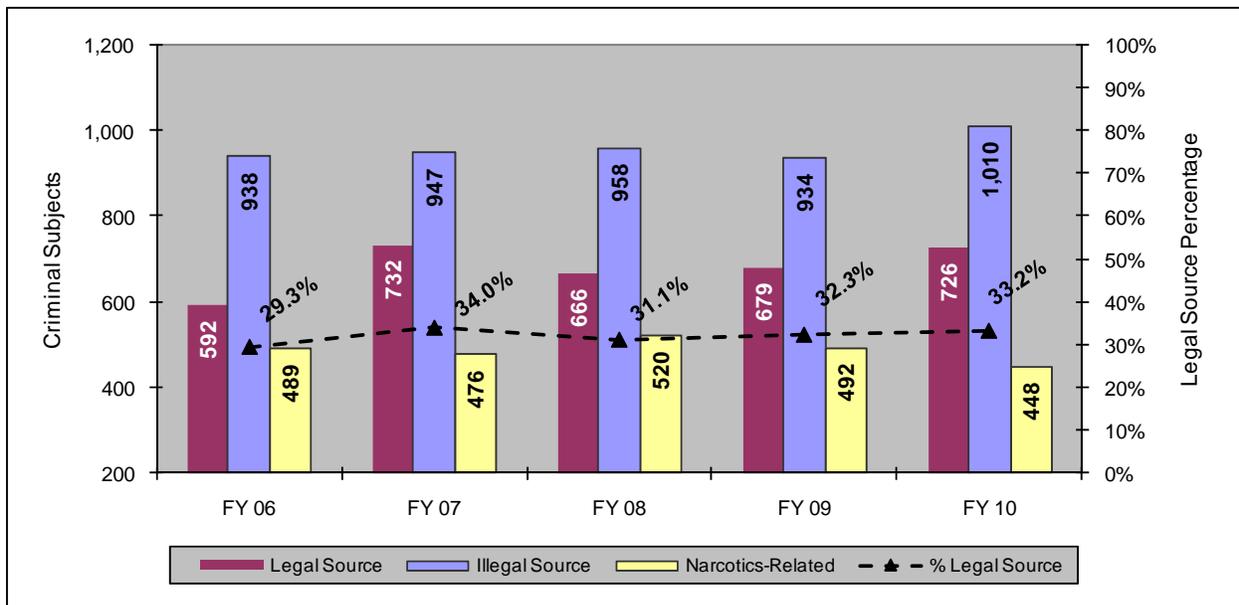
Trends in Criminal Investigation's Enforcement Activities Showed Improvements for Fiscal Year 2010, With Gains in Most Performance Indicators

Figure 13: Number of Subjects Convicted and Sentenced for a Crime Each Fiscal Year.



Source: CIMIS Report INV002 (Summary by Program Area).

Figure 14: Number of Subjects Convicted of a Crime Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes.

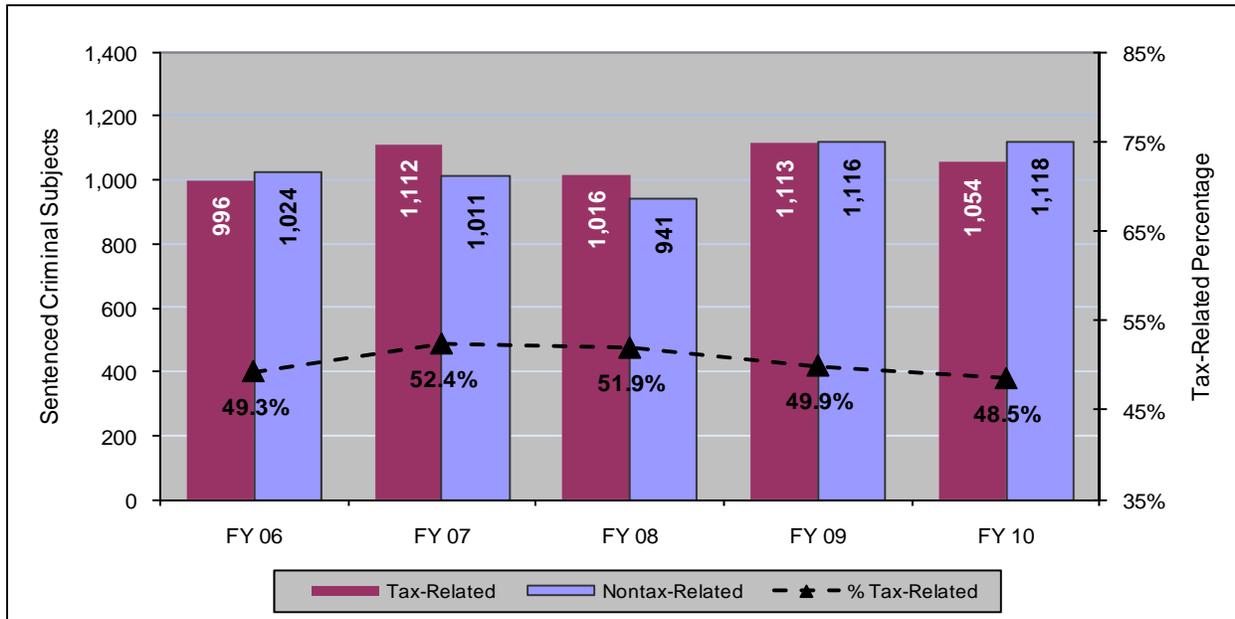


Source: CIMIS Report INV002 (Summary by Program Area).



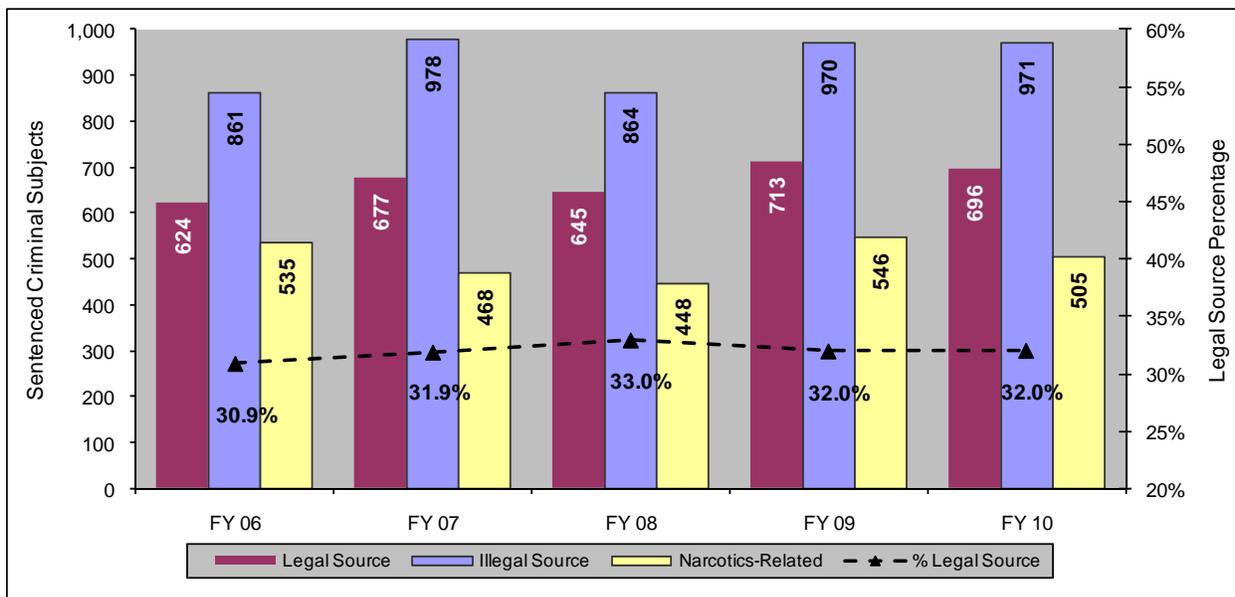
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Figure 15: Number of Subjects Sentenced for a Crime Each Fiscal Year for Tax-Related or Nontax-Related Violations and the Percentage That Is Tax-Related.



Source: CIMIS Report INV002 (Summary by Program Area).

Figure 16: Number of Subjects Sentenced for a Crime Each Fiscal Year by Compliance Strategy Program and the Percentage That Is Legal Source Tax Crimes.

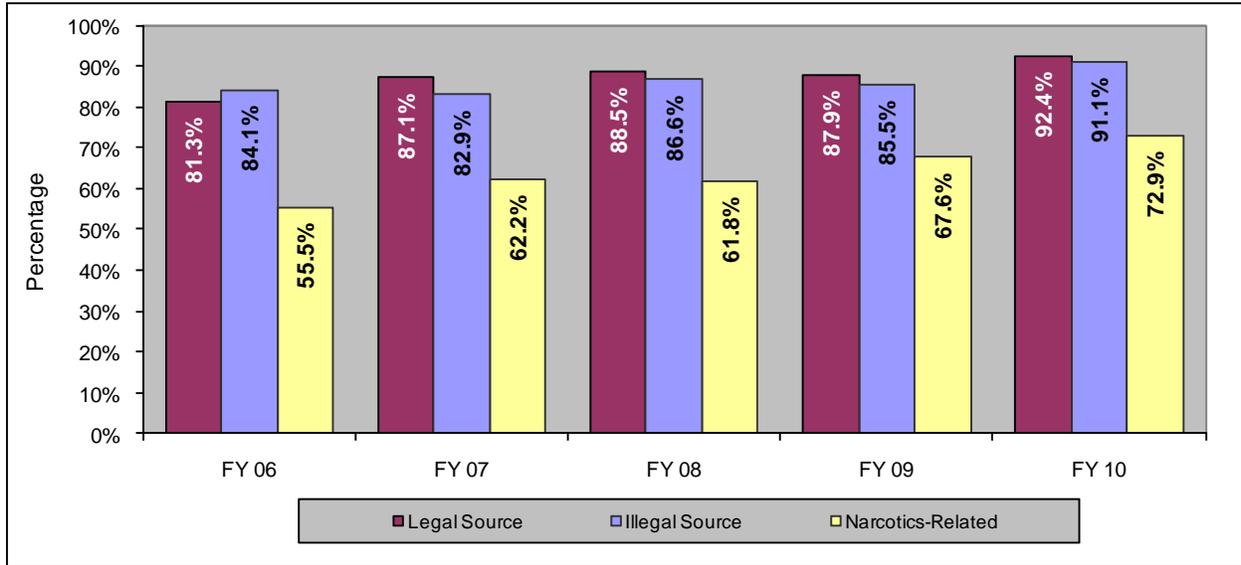


Source: CIMIS Report INV002 (Summary by Program Area).



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Figure 17: Percentage of Investigations That Received Publicity Each Fiscal Year by Compliance Strategy Program.



Source: CI's BPR reports.



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Appendix V

*Related Treasury Inspector General
for Tax Administration Audit Reports*

1. *Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 1999 Through Fiscal Year 2003* (Reference Number 2004-10-115, dated June 29, 2004).
2. *Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 1999 Through Fiscal Year 2004* (Reference Number 2005-10-081, dated May 16, 2005).
3. *Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 2000 Through Fiscal Year 2005* (Reference Number 2006-10-074, dated May 12, 2006).
4. *Statistical Portrayal of the Criminal Investigation Function's Enforcement Activities From Fiscal Year 2000 Through Fiscal Year 2006* (Reference Number 2007-10-083, dated June 6, 2007).
5. *Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2007* (Reference Number 2008-10-133, dated July 9, 2008).
6. *Statistical Portrayal of the Criminal Investigation Division's Enforcement Activities for Fiscal Years 2000 Through 2008* (Reference Number 2009-30-053, dated March 26, 2009).
7. *Trends in the Criminal Investigation Division's Enforcement Activities Showed Improvements; However, Some Goals Were Not Attained* (Reference Number 2010-30-074, dated July 1, 2010).



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Appendix VI

Glossary of Terms

Appropriation – A provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.

Business Performance Review – A quarterly review by an IRS operating division to report on its performance measures, business results, employee and customer satisfaction, and other items of importance.

Compliance Strategy Program – CI's organizational strategy comprised of three interdependent program areas: Legal Source Tax Crimes, Illegal Source Financial Crimes, and Narcotics-Related Financial Crimes.

Criminal Investigation Management Information System – A database that tracks the status and progress of criminal investigations and the time expended by special agents.

Cycle Time – Elapsed calendar days on completed investigations.

Direct Investigative Time – Time spent by special agents conducting investigations and other law enforcement activities.

Discontinued Investigation – A subject investigation that resulted in a determination that there was no prosecution potential.

Elapsed Days – The number of days between the initiation of a subject investigation to another date, such as the date discontinued or the date referred for prosecution.

Field Special Agent – A special agent in one of CI's 26 field offices.

Fraud Referral Program – A program designed as a partnership between CI and the IRS operating divisions to promote fraud awareness and assist with fraud training.

Full-Time Equivalent – A measure of labor hours in which 1 FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year. For FY 2010, 1 FTE was equal to 2,088 staff hours.

Gross Tax Gap – The difference between the amount of tax that taxpayers should pay under the tax law and the amount they actually pay on time.

Illegal Source Financial Crimes – Crimes involving illegally earned income, including crimes involving money laundering, 18 United States Code (U.S.C.) Sections (§§) 1956 and 1957;



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sections of U.S.C. Title 31, Money and Finance; and U.S.C. Title 26 violations investigated in conjunction with other agencies.

Internal Revenue Code – The codified collection of United States laws on income, estate and gift, employment, and excise taxes, plus administrative and procedural provisions.

Inventory per Special Agent – The number of open subject investigations divided by the number of field special agents whose salary grade level is 13 or below and having various position descriptions, including those of coordinator and reviewer.

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. The IRS Oversight Board provides experience, independence, and stability to the IRS so it may move forward in a cogent, focused direction.

Legal Source Tax Crimes – Crimes involving legal industries and occupations and legally earned income.

Narcotics-Related Financial Crimes – Crimes involving tax and money laundering related to narcotics and drug trafficking.

Pipeline Inventory – A subject investigation that has been recommended for prosecution and the subject has not been convicted or acquitted, or the investigation has not been dismissed. It excludes investigations where the subject became a fugitive after indictment.

Primary Investigation – An evaluation of an allegation that an individual or entity is in noncompliance with the Internal Revenue laws and related financial crimes.

Program Assessment Rating Tool – A tool developed to assess and improve program performance so that the Federal Government can achieve better results. Specifically, the review helps identify a program's strengths and weaknesses to inform funding and management decisions aimed at making the program more effective.

Questionable Refund Program – An IRS nationwide, multifunctional program designed to identify fraudulent returns, stop the payment of fraudulent refunds, and refer identified fraudulent refund schemes to CI's field offices.

Referred for Prosecution – A subject investigation that resulted in the determination of prosecution potential and referred to the Department of Justice or to a United States Attorney's Office.

Reimbursable Resources – Funds received by CI as the result of agreements with other Federal agencies, for which CI performs certain types of work, generates expenditures, and in turn the other agency reimburses CI.



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Return Preparer Program – A program that pursues unscrupulous return preparers who knowingly claim excessive deductions and exemptions on returns prepared for clients. The clients may or may not have knowledge of the false claims.

Special Agent – CI law enforcement employee who investigates potential criminal violations of the Internal Revenue laws and related financial crimes.

Subject Investigation – An investigation of an individual or entity alleged to be noncompliant with the laws enforced by the IRS and having prosecution potential.

Tax-Related Violation – A violation involving Title 26, Title 33 sections, or one of the following Title 18 sections: § 286, § 287, § 371, or § 514 associated with a Title 26 violation, or § 371 associated with a Title 26 and a Title 31 violation.

Tax Year – A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

Total Tax Percentage – The percentage of direct investigative time devoted to legal source and illegal source tax cases. It includes time spent on legal source general investigations that are a source of tax subject investigations.