TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Trends in Compliance Activities Through Fiscal Year 2010

July 18, 2011

Reference Number: 2011-30-071

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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TRENDS IN COMPLIANCE ACTIVITIES THROUGH FISCAL YEAR 2010

Highlights

Final Report issued on July 18, 2011

Highlights of Reference Number: 2011-30-071 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

This report is a compilation of statistical information reported by the Internal Revenue Service (IRS). TIGTA did not verify or validate the authenticity or reliability of the data and, therefore, did not identify any specific impact on the taxpayer. However, continued effort to improve compliance is important to reducing the Tax Gap and maintaining the integrity of the voluntary tax compliance system.

WHY TIGTA DID THE AUDIT

TIGTA conducts this review each year, and it is included as part of our Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives. The overall objective was to provide various statistical information regarding Collection and Examination function activities.

WHAT TIGTA FOUND

During Fiscal Year 2010, the IRS encountered many challenges, including a variety of tax provisions that were created, extended, or expanded. The IRS has the challenging task of maintaining a quality workforce and enforcing tax laws in an environment of changing tax legislation. For example, the American Recovery and Reinvestment Act of 2009 included 56 tax provisions. At least 42 of the 514 Affordable Care Act provisions add to or amend the Internal Revenue Code, and at least eight require the IRS to establish new operations. Collectively, these provisions represent the largest set of tax law changes in 20 years.

Recent staffing increases have resulted in an increase of Collection and Examination function enforcement personnel by 19 percent since Fiscal Year 2006. This compares with a 4 percent increase in the total number of IRS employees during this same period, from 103,811 employees in Fiscal Year 2006 to 107,622 employees at the end of Fiscal Year 2010.

The Fiscal Year 2010 Collection function activities showed mixed results compared to Fiscal Year 2009. The IRS continued to increase the use of collection enforcement tools. The number of delinquent accounts closed by full payment increased, as did the amount collected on delinquent accounts. However, the Collection function received more delinquent accounts than it closed, gross accounts receivable increased, and the number of tax delinquency investigation tax periods closed with the receipt of a delinquent tax return decreased. In addition, while the number of taxpayers with delinquent accounts and delinquent returns in the Queue decreased, it was offset by an increase in the number of these cases that were shelved or surveyed.

The Examination function's recent increase in revenue agents and tax compliance officers resulted in the most tax returns examined over the past five years, although the majority of these examinations were conducted via correspondence. The number of tax returns examined increased for individual, corporate, and S Corporation tax returns in Fiscal Year 2010, while the number of partnership examinations decreased and examinations of other types of tax returns remained the same. The no-change rates for examinations of individual income tax returns by revenue agents and tax compliance officers increased in Fiscal Year 2010, but remained lower than the no-change rates reported in Fiscal Year 2006.

WHAT TIGTA RECOMMENDED

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

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 18, 2011

MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND ENFORCEMENT

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Trends in Compliance Activities Through Fiscal Year 2010 (Audit # 201130012)

This report presents the results of our review to provide various statistical information regarding Collection and Examination function activities. We conduct this review each year, and it is included as part of our Fiscal Year 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.

Table of Contents

Abbreviations

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

Background

Each year, the Treasury Inspector General for Tax Administration (TIGTA) conducts this review of nationwide compliance statistics for the Internal Revenue Service's (IRS) Collection and Examination function activities. This review is included in our Fiscal Year (FY) 2011 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives. Our data analyses were performed in TIGTA's Philadelphia, Pennsylvania, office during the period February through April 2011. Nationwide data from IRS management information systems were used during our review. Due to time and resource constraints, we did not audit IRS systems to validate the accuracy and reliability of their information. Also, we did not assess internal controls because doing so was not applicable within the context of our objective. Our analyses were limited to identifying changes and trends in IRS data.

Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II. Detailed charts and tables referred to in the body of this 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 update prior TIGTA reports on compliance trends. Appendix V presents a list of those reports.

Results of Review

During FY 2010, the IRS encountered many challenges, including a variety of tax provisions that were created, extended, or expanded. Specifically, the provisions were the:

- American Recovery and Reinvestment Act of 2009 (Recovery Act).[1]
- Worker, Homeownership, and Business Assistance Act of 2009.[2]
- Hiring Incentives to Restore Employment Act of 2010 (HIRE Act).[3]
- Patient Protection and Affordable Care Act of 2010 (Affordable Care Act).[4]

These tax provisions are examples of the impact tax law changes have on how the IRS conducts its activities, how many resources are required, and how quickly the IRS can meet strategic goals. The IRS has the challenging task of maintaining a quality workforce and enforcing tax laws in an environment of changing tax legislation.

The Recovery Act included 56 tax provisions (20 related to individual taxpayers and 36 related to business taxpayers). These provisions will continue to challenge the IRS over multiple filing seasons. A significant provision of the Recovery Act is the Making Work Pay Tax Credit, which applied to most taxpayers with earned income. The Making Work Pay Tax Credit was advanced to taxpayers through their wages by a decrease in Federal income tax withholding. The Credit was in effect for Tax Years[5] 2009 and 2010 and was implemented through new income tax withholding tables issued by the IRS. The TIGTA reported that the reduced income tax withholding associated with the Making Work Pay Tax Credit would make some taxpayers vulnerable to under-withholding of taxes for Tax Years 2009 and 2010.[6] Taxpayers who were advanced more of the Making Work Pay Tax Credit than they were entitled to owed taxes when filing their Tax Year 2009 returns and may again owe taxes when filing their Tax Year 2010 tax returns.

The Worker, Homeownership, and Business Assistance Act of 2009 revised, extended, and expanded the First-Time Homebuyer Credit (Homebuyer Credit) to a broader range of home purchases and added new documentation requirements. For example, long-time residents of the

[1] Pub. L. No. 111-5, 123 Stat. 115 (2009).
[2] Pub. L. No. 111-92, 123 Stat. 2984 (2009).
[3] Pub. L. No. 111-147, 124 Stat. 71 (2010).
[4] Pub. L. No. 111-148, 124 Stat. 119 (2010).
[5] See Appendix VI for a glossary of terms.
[6] *Overall the Making Work Pay Credit Was Implemented As Intended by the Congress, but Resulted in Many Taxpayers Owing Taxes With Their Returns* (Reference Number 2011-41-002, dated November 1, 2010).

same main home may now claim the Homebuyer Credit if they purchase new principal residences. New documentation requirements mean that taxpayers claiming the Homebuyer Credit may not file their tax returns electronically and must file paper tax returns. Initially, the IRS did not have math error authority[7] to disallow the Homebuyer Credit during processing if documentation was not provided. Congress has since passed legislation requiring documentation for the Homebuyer Credit and provided the IRS with math error authority to disallow the Credit if the documentation was not provided.

The HIRE Act enacted tax benefits to employers who expanded payrolls and hired previously unemployed individuals. Eligible taxpayers will be exempt from their share of social security taxes on wages to eligible employees. These taxpayers may also be eligible for a credit of up to $1,000 for qualified employees. Additionally, Title V of the HIRE Act included the Foreign Account Tax Compliance Act. A provision of this Act included the requirement that individual taxpayers indicate on their income tax returns the maximum value of foreign financial assets during the taxable year.[8] This provision will allow the IRS to increase enforcement on taxpayers hiding assets overseas.

At least 42 of the 514 Affordable Care Act provisions add to or amend the Internal Revenue Code, and at least 8 require the IRS to establish new operations. Collectively, these provisions represent the largest set of tax law changes in 20 years. The Affordable Care Act contains $438 billion of revenue provisions in the form of new taxes and fees. It also contains credits which provide incentives for medical research and for businesses to offer employees health care insurance. Additionally, new reporting requirements have been established for certain business transactions. The Affordable Care Act further imposes penalties administered through the tax code for individuals and businesses that do not obtain health coverage for themselves or their employees. Other provisions raise revenue to help pay for the overall cost of health insurance reform.

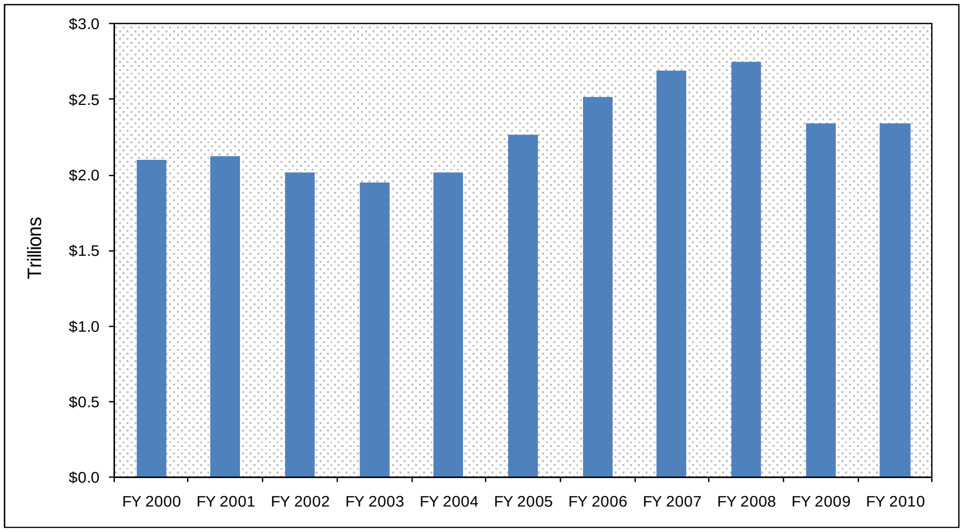
The number of IRS employees increased by 3,811 employees (4 percent) from 103,811 in FY 2006 to 107,622 in FY 2010. Roughly one-half of the increase came in FY 2010 alone, during which the IRS started the year with 105,783 employees and ended it with 107,622. During the same 5-year period, the combined number of Collection and Examination function enforcement personnel[9] increased by 19 percent, from approximately 14,500 at the beginning of FY 2006 to more than 17,200 at the end of FY 2010. After experiencing staffing decreases of 4 percent during FY 2007 and less than 1 percent during FY 2008, the IRS increased enforcement personnel by 10 and 5 percent during FY 2009 and FY 2010, respectively. Recent

[7] This is a program in which the IRS contacts taxpayers through the mail or by telephone when it identifies mathematical errors or mismatches of taxpayer information that would result in a tax change.
[8] Applies to individual taxpayers with an aggregate balance of foreign financial assets of $50,000 or more.
[9] Collection function and Examination function staff located in field offices, excluding management and overhead staff.

staff increases have resulted in the largest numbers of IRS examination enforcement personnel (revenue agents and tax compliance officers) since FY 1999.

From Calendar Years 2005 through 2009, the total number of tax returns filed grew by nearly 6 percent, from approximately 177 million to 187 million. As Figure 1 shows, total dollars the IRS received and collected (gross collections) did not increase for the second straight year. Since FY 2008, gross collections have decreased by 15 percent to $2.35 trillion in FY 2010. This percentage decrease is nearly double the 8-percent decrease from FY 2001 through FY 2003.

Figure 1: Gross Collections



Source: TIGTA analysis of the IRS Data Book.

Enforcement revenue collected during FY 2010 increased by 18 percent from $48.9 billion to $57.6 billion.[10] This amount (not adjusted for inflation) is the first increase since FY 2007 and is more than 18 percent higher than the FY 2006 amount.

The Government Accountability Office again included enforcement of tax laws as 1 of the 30 high-risk areas in the Federal Government.[11] The Government Accountability Office stated that, "because the tax gap arises from so many different types of taxes and taxpayers, multiple approaches will be needed to reduce it." Despite an estimated voluntary compliance rate of 84 percent[12] and IRS enforcement efforts, a significant amount of income remains

[10] See Appendix IV, Figure 2.
[11] *GAO'S 2011 HIGH RISK SERIES – An Update* (GAO-11-394T, dated February 17, 2011).
[12] *A Comprehensive Strategy for Reducing the Tax Gap* (U.S. Department of the Treasury, Office of Tax Policy, dated September 26, 2006).

unreported and unpaid. The IRS estimated the gross Tax Gap for Tax Year 2001 – the most current figures to date – to be approximately $345 billion. The IRS also faces significant challenges in obtaining complete and timely compliance data and in improving methodologies necessary to measure noncompliance. Even with improved data collection, the IRS needs broader strategies and more research to determine what actions are most effective in addressing taxpayer noncompliance. The IRS's strategy for reducing the Tax Gap is largely dependent on funding for additional compliance resources as well as legislative changes.

An increasing number of taxpayers are turning to tax return preparers for assistance in meeting their tax obligations. In Calendar Year 2009, the IRS processed approximately 83.1 million individual Federal income tax returns prepared by paid preparers. However, these preparers were not required to meet or comply with any national standards before selling tax preparation services to the public. In December 2009, the IRS proposed reforms to improve oversight of the return preparer community. The reforms include requirements for registration, competency testing, continuing professional education, and ethical standards, in addition to enforcement of these requirements by the IRS. The new preparer requirements will take several years to implement and will be phased in through Calendar Year 2014, at which time all preparers will be subjected to suitability and competency tests. In the interim, the IRS plans to develop and implement a management information system to gather data on preparers and establish a database to assist taxpayers in identifying qualified tax return preparers.

Collection Function Compliance Activities Showed Mixed Results

During FY 2010, the IRS collected the most revenue on Taxpayer Delinquent Accounts (TDA) by the Automated Collection System (ACS) and Collection Field function (CFf) in 5 years, and also increased its use of collection enforcement tools. However, there were also increases in the number of cases that may never be worked because they were shelved or surveyed and in accounts receivable. In addition, new TDA receipts continued to outpace closures.

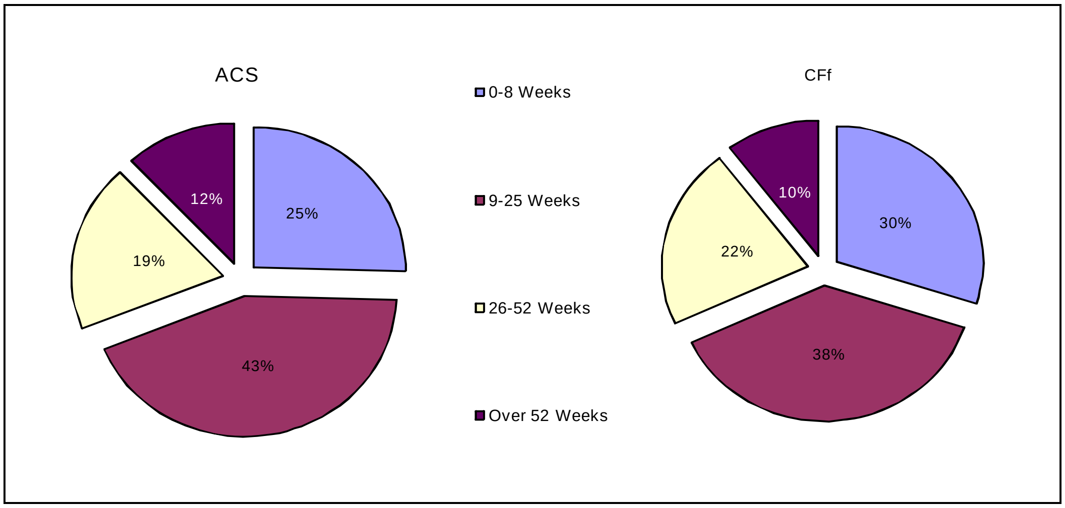
Specifically, the number of TDAs closed (excluding shelved accounts) increased by more than 5 percent, and the number closed by full payment increased by almost 6 percent since FY 2009.[13] Similarly, dollars collected on TDAs by ACS and CFf employees increased more than 15 percent over FY 2009 amounts. The FY 2010 amount matched the 5-year high (FY 2007) of approximately $6.3 billion. The average amount collected per CFf staff year on TDAs increased by approximately 4 percent from FY 2009 (to $462,368), although FY 2010 represents a 19 percent decrease from a 5-year high in FY 2007 of $567,733.[14]

[13] See Appendix IV, Figures 18 and 19.
[14] See Appendix IV, Figure 7.

Figure 2 shows that both the ACS and CFf made the majority of FY 2010 collections within the first year of receipt of the case within the function, which has been the trend over the past 5 years. FY 2010 had more collections in the first year than any of the past 5 years.[15]

During FY 2010, the IRS received more new TDAs than it closed, with the gap between TDA receipts and TDA closures increasing to 2,211,046 accounts (an increase of nearly 50 percent from FY 2009's gap).[16] This is the first time in 3 years that the gap has increased, surpassing a high of 1,914,508 accounts during FY 2007.

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



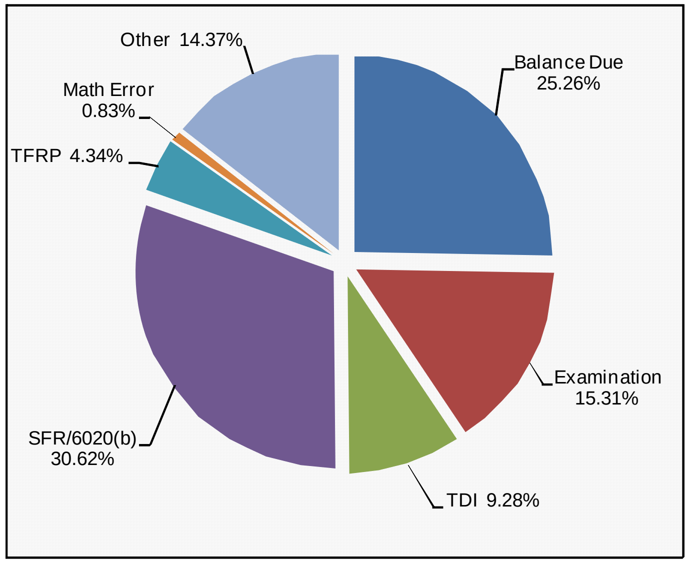
Source: IRS Collection Report 5000-2. Percentages do not equal 100 percent due to rounding.

The amount of gross accounts receivable increased more than 9 percent (to $359 billion) in FY 2010, after increasing by 5 percent and 8 percent during FY 2008 and FY 2009, respectively.[17] The FY 2010 amount represents the 5-year high, and data indicate that the amount has increased by no less than approximately 5 percent each year since FY 2006. It should be noted that this year's increase occurred with no material change in gross collections.

[15] See Appendix IV, Figures 9 and 10.
[16] See Appendix IV, Figure 16.
[17] See Appendix IV, Figure 2.

We obtained the amount of gross accounts receivable by source of assessment, which is shown in Figure 3 as percentages of the total amount at the end of FY 2010. IRS records indicate that over the last 5 years these percentages have not materially changed, except for an increase in the Substitute for Return (SFR)/6020(b) return category as additional emphasis has been placed on the program.[18]

Figure 3: FY 2010 Percentage of Accounts Receivable by Source of Assessment



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

The number of Taxpayer Delinquency Investigation (TDI) tax periods closed because delinquent tax returns were received by the IRS decreased by almost 13 percent from FY 2009 and was only 2 percent more than those tax periods closed in FY 2006. This was largely driven by a nearly 38 percent decrease in Queue closures and a 21 percent decrease in closures by Compliance Services Collection Operations.[19]

The number of taxpayers with TDAs in the Queue also decreased during FY 2010 to 949,201 accounts, which is approximately 14 percent less than FY 2009 numbers. However, the amount owed in the Queue increased less than 1 percent, to $46.2 billion, which is the smallest increase over the past 5 years. The number of taxpayers with TDIs in the Queue decreased to 710,759, which is 20 percent lower than FY 2009 and 29 percent less than the 5-year high, in FY 2007, of 998,287.[20] Although many of the cases in the Queue may be assigned to be worked, a significant number might never receive additional contact to resolve the delinquency.[21]

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[18] See Appendix IV, Figure 3.
[19] See Appendix IV, Figure 15.
[20] See Appendix IV, Figures 11 and 17.
[21] Before accounts get assigned to the Queue, the IRS has already sent notices to the taxpayer about the delinquency. After the notice process, some cases go directly to the Queue, while others are worked in the ACS and may have received enforcement action such as a lien or levy.

Although the number of taxpayers with TDIs and TDAs in the Queue decreased, large increases in the shelved and surveyed cases during FY 2010 indicate that the decreases may not be due to cases being worked and closed. During FY 2010, the number of TDI tax periods shelved or surveyed increased by 98 percent, and the number of TDAs shelved or surveyed increased by 59 percent. Since FY 2006, the IRS has removed more than 4.8 million TDAs,[22] with balance due amounts totaling $26 billion.

The IRS increased the overall use of enforcement tools (liens, levies, and seizures) over the past year. The use of liens has increased by 74 percent since FY 2006. During FY 2010, the number of liens issued by the CFf and ACS increased by 14 and 13 percent, respectively. This represents the largest increase since FY 2007 for the CFf, but alternatively the smallest increase for the ACS since the same year.[23]

The total number of levies increased by 4 percent during FY 2010, which included a 73 percent increase in levies issued by the CFf (to 667,322). However, this increase was offset by a 5 percent decrease in levies issued by the ACS (to 2,939,496). Seizures increased 4 percent in FY 2010 (to 605), but remain 11 percent lower than the 5-year high (FY 2007) of 676[24] and are 94 percent less than the 10,090 seizures in FY 1997.

The number of CFf revenue officers (RO) working delinquent cases increased by almost 4 percent in FY 2009 and increased by more than 8 percent (to 4,068) in FY 2010.[25] However, the TIGTA recently reported that RO hiring in the Small Business/Self-Employed Division during FY 2009 and FY 2010 continues to face the challenge of keeping pace with attrition and workload.[26] Planned hiring in FY 2011 and FY 2012 will barely cover the IRS's estimated attrition losses. With expected attrition losses of 584 and 600 ROs in FY 2011 and FY 2012, respectively, a net gain of 127 ROs is forecasted for the end of FY 2012.[27]

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

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[22] See Appendix IV, Figure 12.
[23] See Appendix IV, Figure 20.
[24] See Appendix IV, Figures 21 and 22.
[25] See Appendix IV, Figure 6.
[26] *Challenges Remain to Balance Revenue Officer Staffing With Attrition and Workload Demands* (Reference Number 2011-30-039, dated May 6, 2011).
[27] This includes ROs who were not assigned delinquent cases.

Examination Function Compliance Activities Showed Mixed Results

Growing numbers of new Examination employees continue to increase examination coverage and enforce tax laws, an important part of maintaining our voluntary tax compliance system. IRS Oversight Board studies of taxpayer attitudes showed that fear of examination is a major factor influencing taxpayers to report taxes honestly. In 2009, 63 percent of taxpayers surveyed cited fear of examination as a factor that influenced their voluntary compliance. This increased to 64 percent in 2010, which is the largest percentage in the past 5 years. A smaller percentage (12 percent) of taxpayers believed that it was acceptable to cheat on their income taxes in 2010 than did in 2009 (13 percent).

In FY 2009, the IRS hired more than 2,000 revenue agents and tax compliance officers, which is the largest hiring increase in the past 5 years. During FY 2010, hiring continued at an increased pace, with the addition of nearly 1,300 revenue agents and tax compliance officers. As of the end of FY 2010, the total number of field Examination function personnel who conduct examinations of tax returns increased by 4 percent from FY 2009. The number of revenue agents increased to 11,648, while the number of tax compliance officers increased to 1,400.[28] Since FY 2006, the number of examiners in field offices[29] has increased by approximately 12 percent.

The large staffing level increases in FY 2009 and FY 2010 resulted in the most tax returns examined in the past 5 years. After decreasing slightly in FY 2008, the percentage of tax returns examined increased slightly during FY 2009 and subsequently increased by nearly 8 percent in FY 2010. In FY 2009, the IRS realized increases in the dollar yield per hour for individual tax return examinations performed by tax compliance officers as well as for individual, corporate, and other types of tax return examinations performed by revenue agents.[30] However, in FY 2010 the dollar yield per hour decreased for each of those categories.

It was expected that the IRS would not immediately realize an increase in productivity from these new hires because of the time required to train them and because experienced examiners will need to be used as training coaches and classroom instructors, which reduces their availability to conduct examinations. However, the increase in tax returns examined indicates that these employees are having an effect on productivity.

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

IRS examinations can range from the issuance of an IRS notice asking for clarification of a single tax return item that appears to be incorrect (correspondence examination) to a face-to-face

[28] See Appendix IV, Figure 23.
[29] Examiners in field offices include revenue agents, tax compliance officers, tax examiners, and RO examiners.
[30] See Appendix IV, Figures 25 through 28.

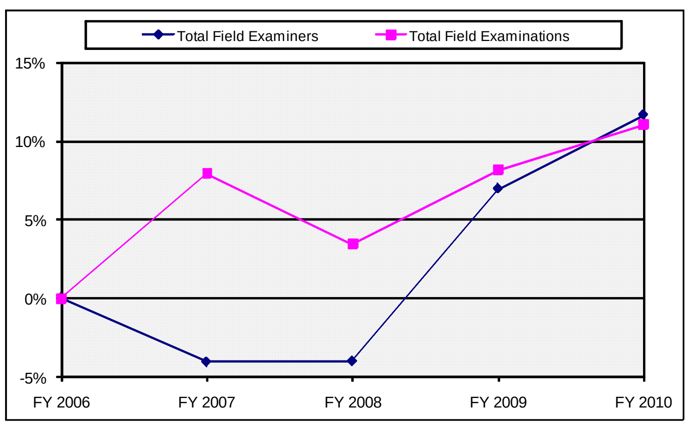
interview and review of the taxpayer's records. Differentiating these two types of contact between the IRS and taxpayers is important when reviewing examination coverage rates, and caution should be taken in combining statistics from the various Examination function programs. Face-to-face examinations are generally more comprehensive and time consuming for the IRS and the taxpayers, and typically result in higher dollar adjustments to the tax amounts. However, during FY 2010, 73 percent of all examinations were conducted via correspondence.

The IRS also uses several computer-matching and automated error-checking routines to verify the accuracy of tax returns.[31] These routines often identify adjustments to tax liabilities. However, these adjustments are not included in the traditional "audit rates" and are not reported separately as enforcement efforts. In FYs 2009 and 2010, the IRS experienced large increases in these adjustments due to the necessity of computing recovery rebate credits and Making Work Pay Credits for those taxpayers who had not initially claimed them on their tax returns.

The overall percentage of tax returns examined in FY 2010 (including face-to-face and correspondence examinations) increased nearly 8 percent[32] from FY 2009. This is the largest overall number of tax returns examined over the past 5 years and an increase from FY 2006 of 17 percent.

Increased staffing in the Examination function is allowing the IRS to continue to increase the number of tax returns examined. Figure 4 shows that compared with prior years, Examination function staffing has significantly increased, primarily due to the hiring of additional examiners in FYs 2009 and 2010.

Figure 4: Percentage Change in the Number of Field Examiners and Examinations



Source: IRS Data Book and Examination Table 37.

[31] See Appendix IV, Figures 47 and 48.
[32] The IRS has traditionally calculated the percentage of examination coverage by dividing the number of returns examined in the current fiscal year by the number of returns filed in the preceding calendar year.

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

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

- *Individual Income Tax Return Examinations* – FY 2006 represented the 5-year low, with only 1,283,950 (1 of every 103) individual income tax returns examined. Since then, the number of tax returns examined has continuously increased and 1,581,394 (1 of every 90) were examined in FY 2010. This is a 23 percent increase over FY 2006.[33]

  During FY 2010, more than 82 percent of the examinations of individuals were performed by correspondence.[34] Only 1 of every 503 individual income tax returns filed received a face-to-face examination (a 4 percent increase in coverage over FY 2009), while 1 of every 110 received a correspondence examination (a more than 8 percent increase in coverage over FY 2009).

  The TIGTA reviewed the Correspondence and Discretionary Examination Program in the Small Business/Self-Employed Division's Campus Compliance Services function, as well as the Reporting Compliance function in the Wage and Investment Division. Taxpayers had expressed concerns with the length of the examination process, the lack of consideration given to their information sent to the IRS, and treatment by IRS employees.

  The IRS has taken steps to reengineer the examination process and improve employee compliance with the Correspondence and Discretionary Examination Program guidelines, which could ultimately lessen taxpayer burden and increase taxpayer rights and entitlements. However, the TIGTA found that employees did not follow established procedures and/or guidelines when processing correspondence that taxpayers submit for examinations of their tax returns and taxpayer burden continues to exist.[35]

- *Corporate Income Tax Return Examinations* – The number of corporate income tax returns examined[36] increased more than 5 percent in FY 2010, after decreasing by more than 7 percent during FY 2009. However, the number of examinations has increased by only 3 percent since FY 2006. From FY 2006 through FY 2010, the total number of corporate tax returns examined increased from 28,427 (1 of every 80 returns filed) in FY 2006 to a 5-year high of 29,986 (1 of every 74 returns filed) in FY 2008. In FY 2009 there was a decrease to 27,834 (1 of every 79 returns filed), followed by an increase to

[33] This includes examinations conducted by employees located in field offices and campuses. See Appendix IV, Figures 31 and 32.
[34] We computed this percentage using the audit technique to identify whether there was actual face-to-face contact during the examination. This number differs from publicized reports that rely solely on the organizational code.
[35] *Progress Has Been Made to Reengineer the Examination Program, but Additional Improvements Are Needed to Reduce Taxpayer Burden* (Reference Number 2011-30-016, dated February 18, 2011).
[36] This information excludes returns for foreign corporations, S Corporations, and Cooperative Associations.

29,334 (1 of every 72 returns filed) in FY 2010.[37] Meanwhile, the number of corporate income tax returns filed decreased by more than 8 percent during the 5-year period.

The number of corporate tax returns examined with assets of less than $10 million increased by almost 5 percent in FY 2010. During the same period, the number of corporate tax returns examined with assets of $10 million and greater increased by more than 7 percent, but within this category, examinations of returns with assets of $250 million and greater decreased by nearly 9 percent.

Currently, the IRS's National Research Program is planning a Corporate Income Tax study to enhance tax administration of United States corporations. The last time that the IRS collected data on how well corporations complied with the tax law was in Calendar Year 1988, under the Taxpayer Compliance Measurement Program. Updating this data will allow the IRS to increase its ability to ensure corporate entities correctly report and pay taxes on the hundreds of billions of dollars of income they earn every year.

- *S Corporation Return Examinations* – The number of S Corporation tax returns examined increased by almost 25 percent from FY 2006 to FY 2009, but there was a decrease of more than 6 percent in FY 2010. The number of tax returns examined decreased from 1 of every 266 returns filed in FY 2006 to 1 of every 270 returns filed in FY 2010. During the same period, the number of S Corporation returns filed has increased by approximately 19 percent. However, during FY 2010 the number of returns filed increased by approximately 0.5 percent, which is the smallest increase in the past 5 years.[38]
- *Partnership Return Examinations* – The number of partnership returns examined decreased by more than 3 percent in FY 2010; this is the second straight year in which a decrease was noted. Returns examined remain up by more than 27 percent since the 5-year low in FY 2006. The number of returns filed increased by approximately 26 percent between FYs 2006 and 2010.[39] About 1 of every 279 returns filed was examined in FY 2006. This increased to about 1 of every 276 for FY 2010.
- *Other Tax Type Examinations (Fiduciary, Employment, Excise, Estate, and Gift Taxes)* – The overall number of examinations in these 5 classes remained consistent, increasing by only 1 percent in FY 2010. After experiencing a decrease of almost 17 percent during FY 2008, the overall number of examinations increased by almost 8 percent during FY 2009. In FY 2010, increases in the overall number of examinations in gift, excise, and fiduciary classes, of 13, 6, and 1 percent, respectively, were offset by a decrease in

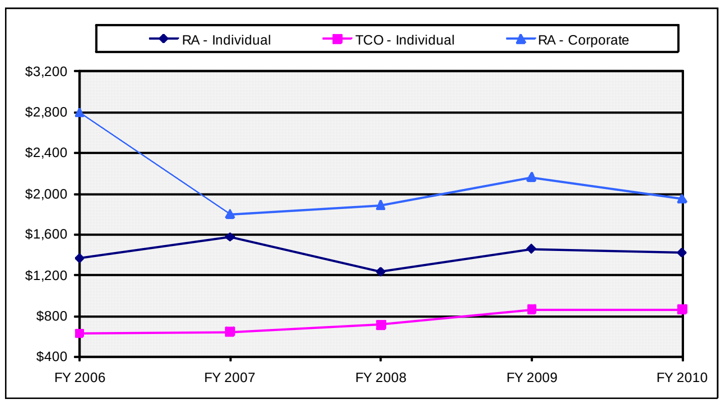
[37] See Appendix IV, Figures 31, 37, and 38 for coverage by size of corporation.
[38] See Appendix IV, Figures 31 and 40.
[39] See Appendix IV, Figures 31 and 41.

the examinations within the Estate class of approximately 4 percent. Examinations in the Employment class decreased by less than 0.1 percent.[40]

Some Examination function productivity indicators decreased

Figure 5 shows the dollar yield per hour for FYs 2006 through 2010 for revenue agents and tax compliance officers. The FY 2010 dollar yield per hour for examinations of individual tax returns decreased by less than 3 percent for revenue agents and less than 0.5 percent for tax compliance officers after increasing in FY 2009 by more than 18 percent and nearly 21 percent, respectively. These are the smallest percentage changes for either group in the past 5 years.

Figure 5: Examination Function Dollar Yield per Hour



Source: TIGTA analysis of Examination Table 37.
RA = revenue agent. TCO = tax compliance officer.

The yield also decreased for revenue agent examinations of corporate tax returns during FY 2010, by nearly 10 percent. This is the second straight year where the yields for revenue agent examinations of individual and corporate tax returns have moved in parallel directions.

The Examination function dollar yield per hour for individual income tax return examinations by revenue agents has fluctuated over the past 5 years. While the hours per return has varied, the yield fluctuation appears to be largely due to the varied dollar amounts per return over the past 5 years, which have ranged between a low of $37,523 per return in FY 2008 to a high of $50,670 per return in FY 2007.

The dollar yield per hour for individual income tax return examinations by tax compliance officers decreased for the first time in 5 years. Dollar amounts per return consistently increased over the past 5 years, with a 6 percent increase during FY 2010. Meanwhile the associated hours per return also increased by 6 percent in FY 2010.

From FY 2006 to FY 2009, the hours spent examining each corporate tax return remained relatively constant. However, in FY 2010 the hours expended on each return decreased by more than 10 percent. The average dollar amounts assessed per return also decreased, by

[40] See Appendix IV, Figures 31 and 42 through 46.

approximately 19 percent in FY 2010. Prior to FY 2010, the average dollar amount assessed per return had remained relatively constant from FY 2006 to FY 2009. The net effect of these adjustments was that the dollar yield per hour for corporate tax return examinations decreased by nearly 36 percent in FY 2007, followed by increases of 5 and 15 percent, in FY 2008 and FY 2009, respectively. During FY 2010, the dollar yield per hour decreased by nearly 10 percent, but remained above FY 2008 levels.[41]

After decreasing or remaining the same from FYs 2006 to 2009, IRS data indicate that the no-change rates for individual tax returns examined by revenue agents and by tax compliance officers increased in FY 2010. These no-change rates for FY 2010 remain 21 percent and 23 percent lower for revenue agents and tax compliance officers, respectively, than the no-change rates reported in FY 2006. No-change rate results of revenue agent examinations of corporate tax returns have fluctuated up and down over the past 5 years. The no-change rates of revenue agent examinations of other types of tax returns increased for the third consecutive year, and the no-change rate of revenue agent examinations of partnership returns increased 19 percent over FY 2009.[42] The IRS continues to conduct studies with the goal of improving the return selection process to increase rates of return across the enforcement program.

Conclusion

The IRS faced many challenges during FY 2010, including implementation of provisions related to new tax legislation, the condition of the economy, and changes to its workforce. Several indicators showed the impact of these challenges, including little change in gross collections, an increase in accounts receivable, and an increase in the number of cases that might never be worked. However, many other indicators increased, including increases in the number of delinquent cases being closed, enforcement revenue collected, and examinations performed. These indicators could suggest that the hiring and training of new personnel is having a positive impact on the IRS's ability to enforce the Nation's tax laws, even though the full benefit from these individuals has yet to be realized.

[41] See Appendix IV, Figure 26.
[42] See Appendix IV, Figure 29.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide various statistical information regarding Collection and Examination function activities. We conduct this review each year, and it is included as part of our FY 2011 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives. To accomplish our objective, we:

I. Obtained and analyzed information relating to compliance activities.

   A. Obtained and analyzed Collection function data. This included, but was not limited to:

      1. Staffing.
      2. Direct and indirect time.
      3. Delinquent account inventories and unfiled return investigations.
      4. Enforcement actions (liens, levies, and seizures).[1]

   B. Obtained and analyzed Examination function data. This included, but was not limited to:

      1. Staffing.
      2. Direct and indirect time.
      3. Coverage of individual and business tax returns compared to the number of returns filed for each type of return.
      4. Productivity results for individual and business tax returns.

   C. Obtained and analyzed other Compliance related data. This included, but was not limited to:

      1. Enforcement Revenue.
      2. Gross collections and accounts receivable.
      3. Math Error, Underreporter, and Automated Substitute for Return cases.

   D. Reviewed applicable TIGTA and Government Accountability Office reports for relevant information.

---

[1] See Appendix VI for a Glossary of Terms.

E. Discussed aberrations in the data with applicable IRS personnel.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We did not assess internal controls because doing so was not applicable within the context of our objective. Our analyses were limited to identifying changes and trends in data prepared and reported by the IRS.

Appendix II

Major Contributors to This Report

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Curtis J. Kirschner, Lead Auditor
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Appendix III

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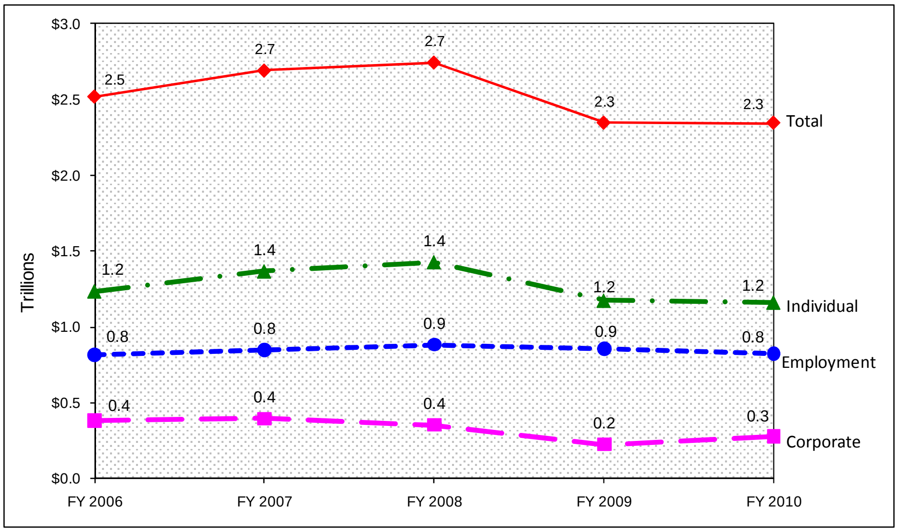
Appendix IV

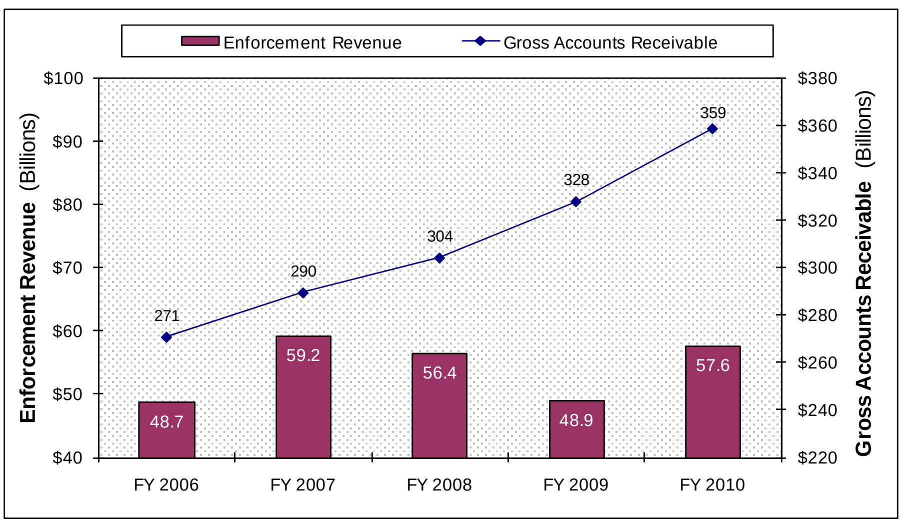
Detailed Charts of Statistical Information

Figure 1: Gross Collections by Type of Tax[1]



Source: TIGTA analysis of the IRS Data Book.

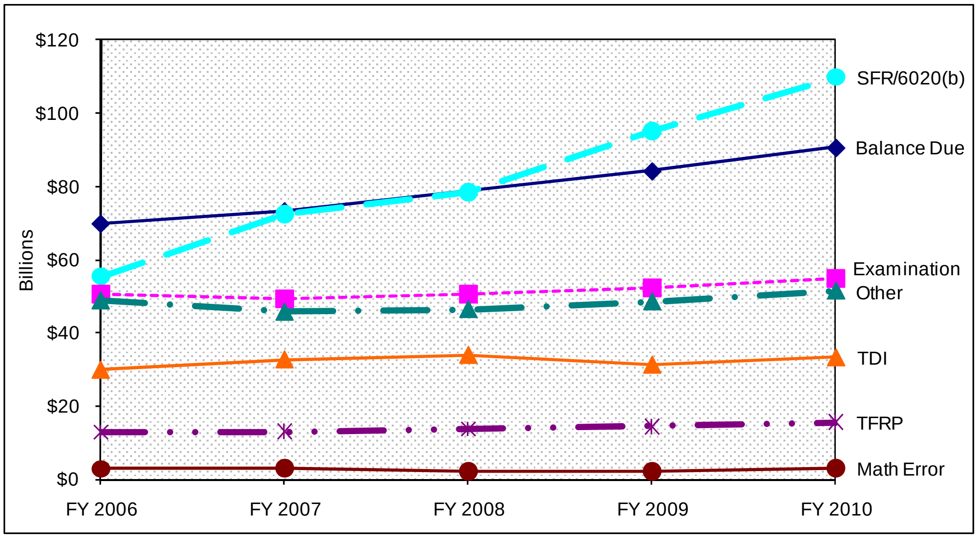
Figure 2: Amount of Enforcement Revenue Collected Compared to Gross Accounts Receivable



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

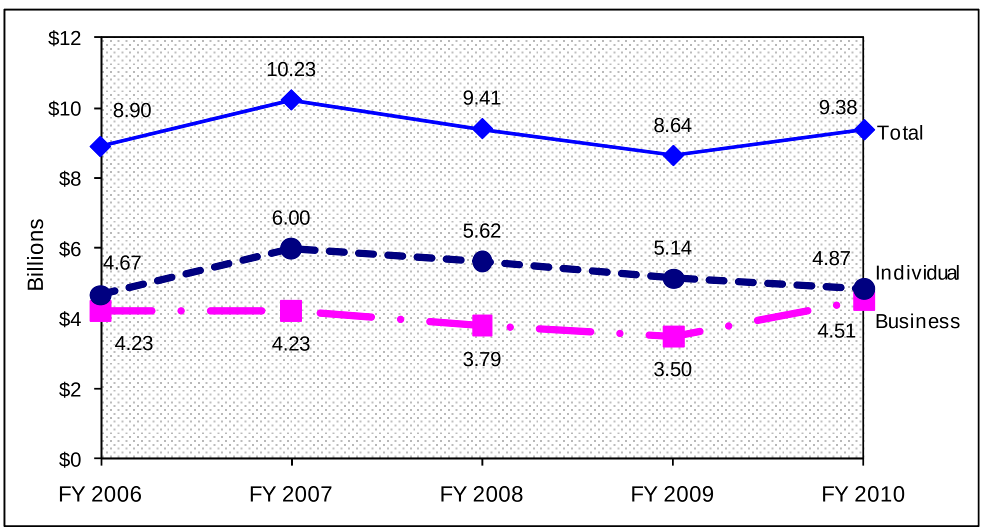
[1] Income tax on estates and trusts is included in individual income tax in FYs 2005–2008. Beginning with FY 2009, the IRS amended this reporting, and estate and trust income tax is reported separately. Estate and trust income tax for FY 2010 equaled approximately $12 billion. The total line includes excise, estate, and gift taxes also, not just individual, corporate, and employment.

Figure 3: Gross Accounts Receivable by Source of Assessment



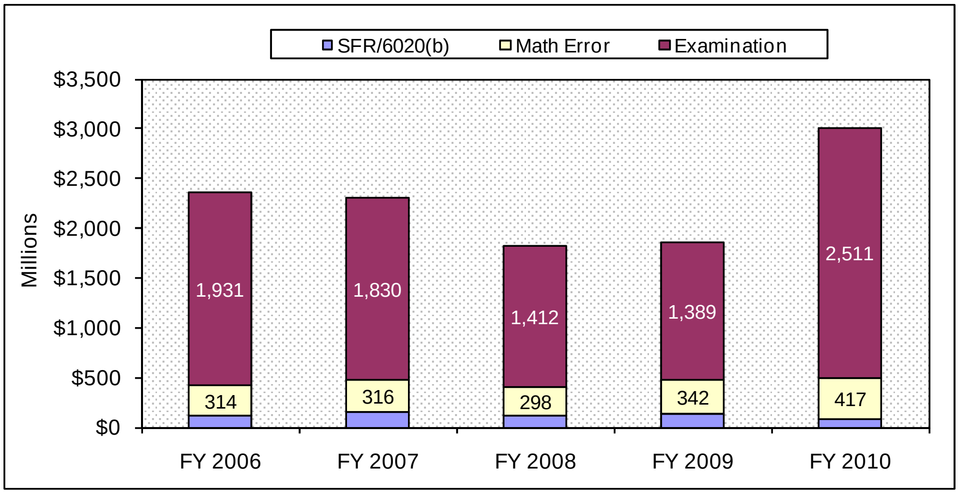
Source: TIGTA analysis of data received from the Office of the Chief Financial Officer. TFRP = Trust Fund Recovery Penalty.

Figure 4: Total Amount Collected During Notice Status



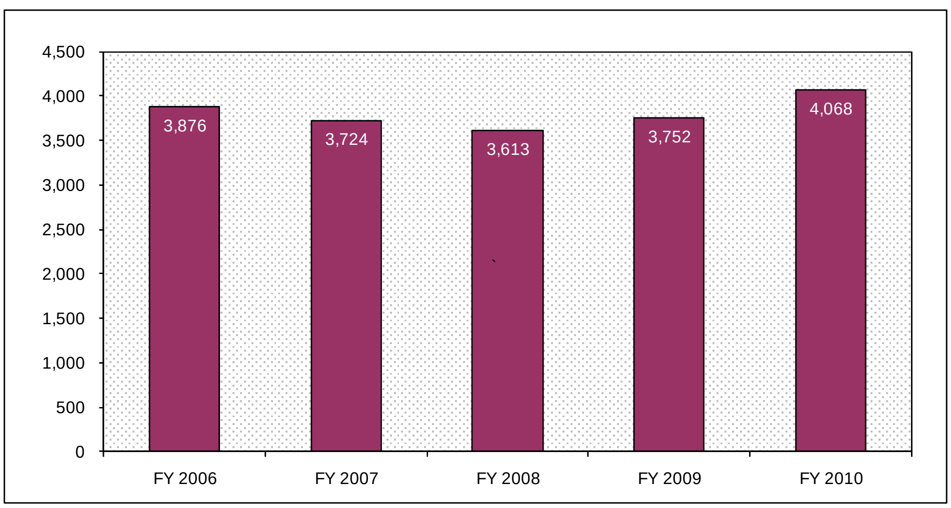
Source: Collection Report 5000-2/242.

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



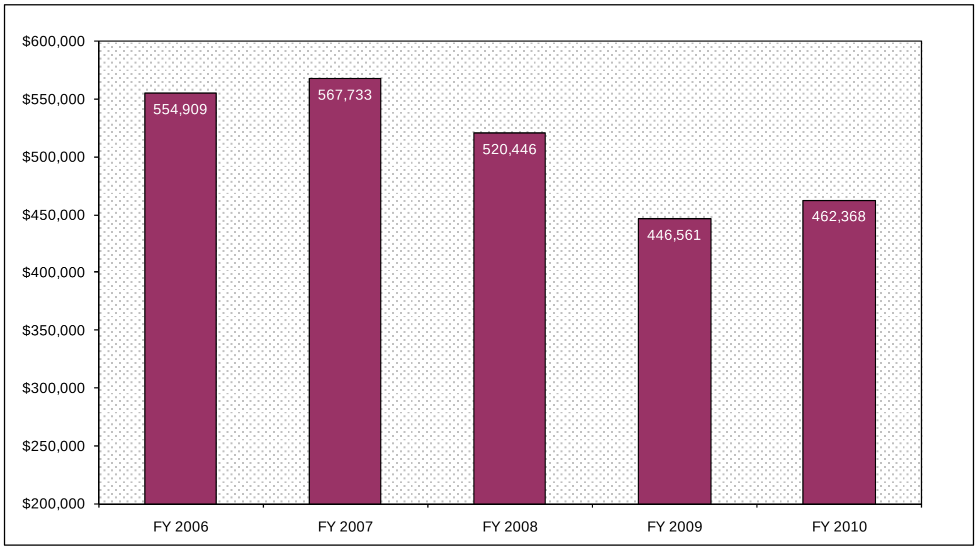
Source: Collection Report 5000-2/242.

Figure 6: Number of CFf ROs Assigned Delinquent Cases at the End of Each Year



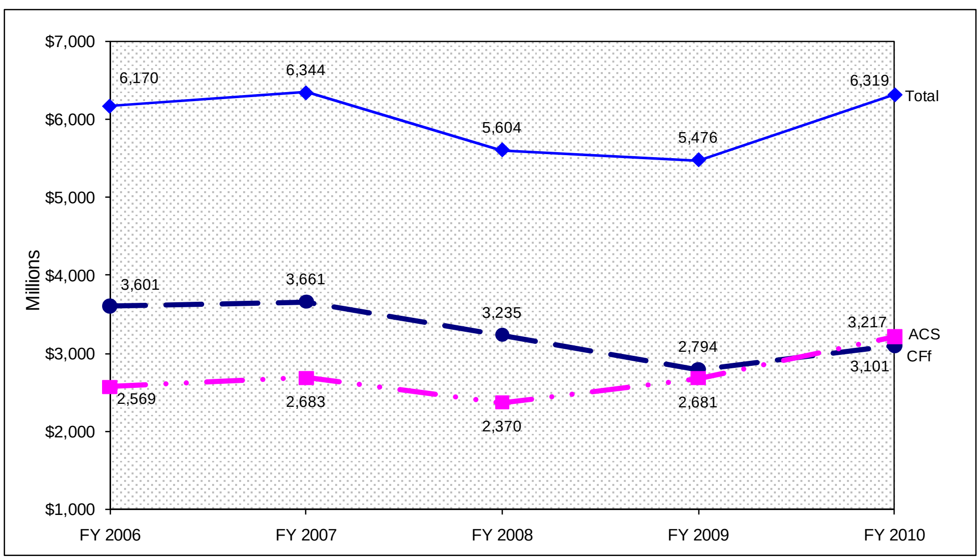
Source: Collection Report 5000-23.

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



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

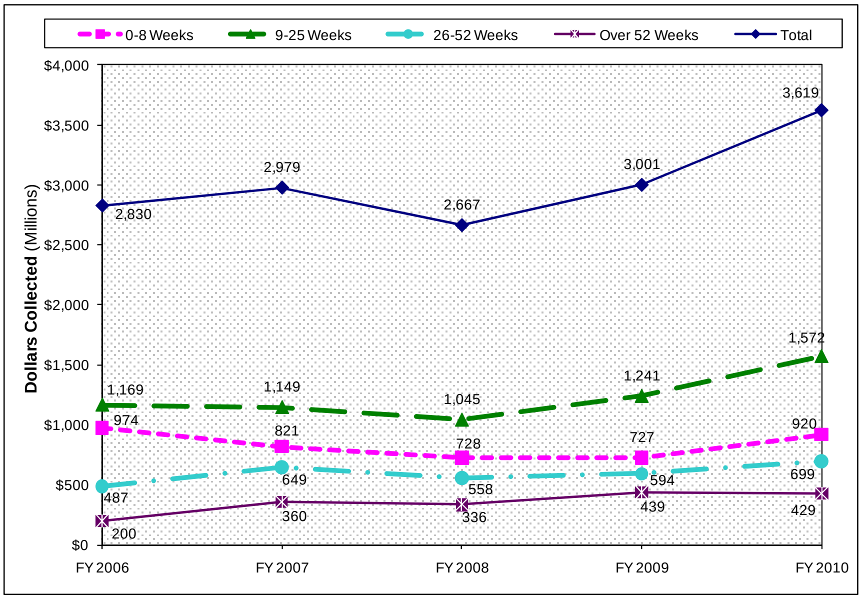
Figure 8: Net Amounts Collected on TDA Tax Periods by the CFf and ACS[2]



Source: Collection Report 5000-2.

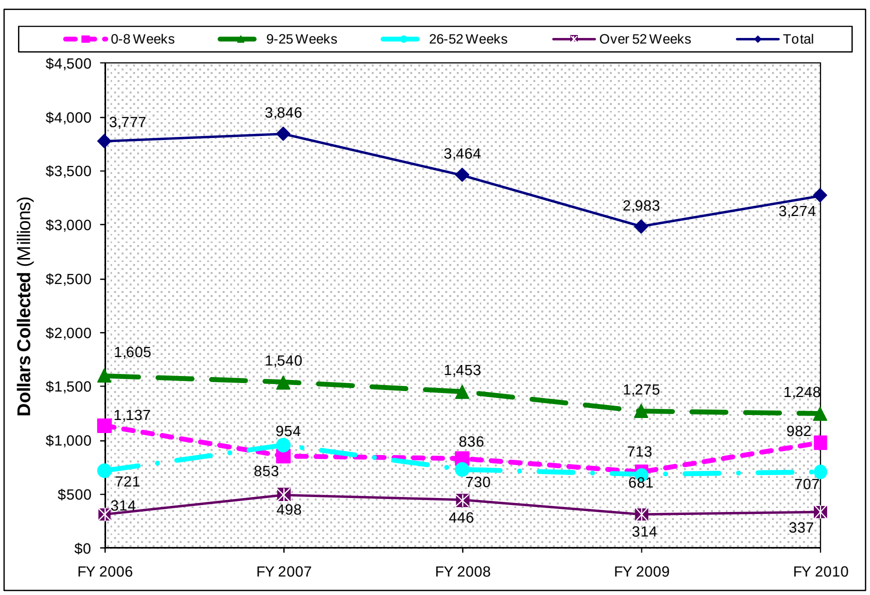
[2] The dollars collected shown in Figure 8 are the net amounts collected after adjustments, such as refunds, are considered. The amounts in Figures 9 and 10 are larger because they show the gross amounts collected.

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



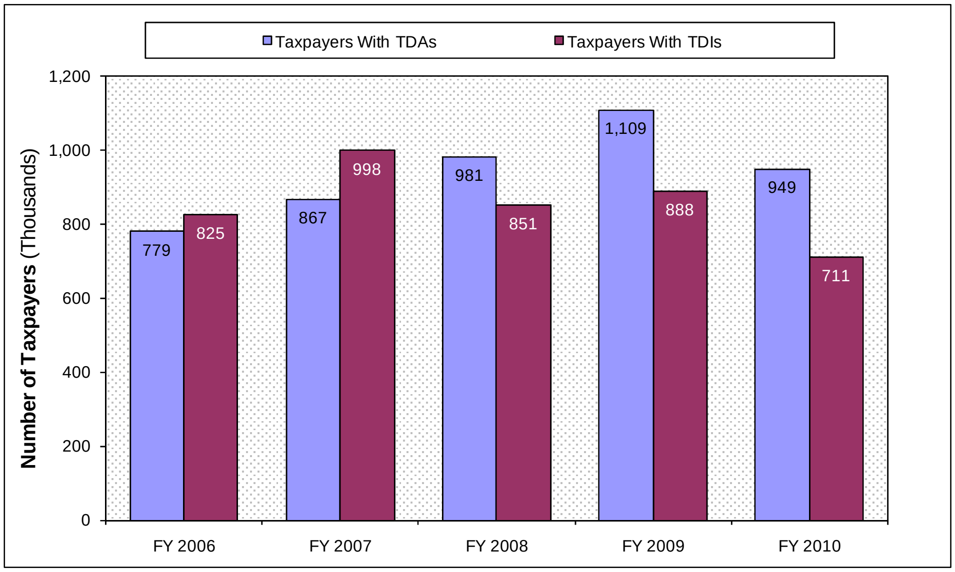
Source: Collection Report 5000-2.

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



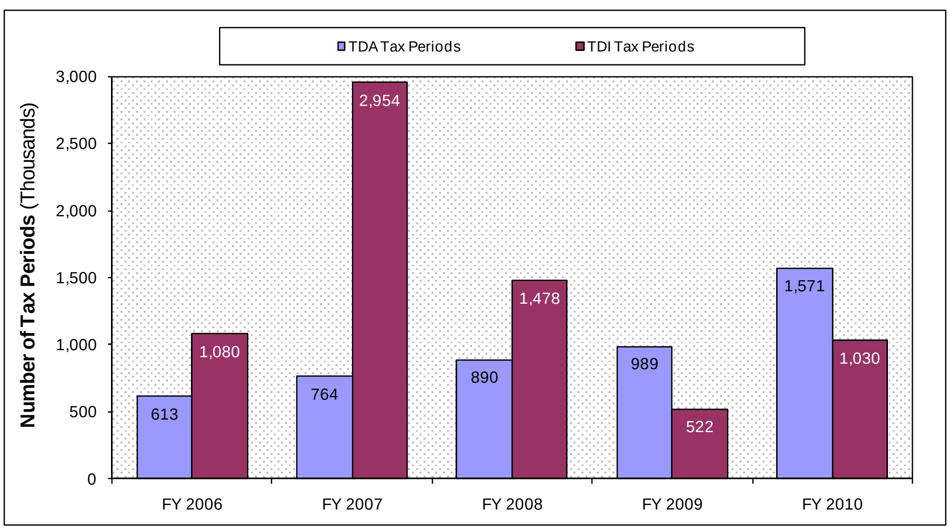
Source: Collection Report 5000-2.

Figure 11: Taxpayers With TDAs and TDIs Maintained in the Queue[3]



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

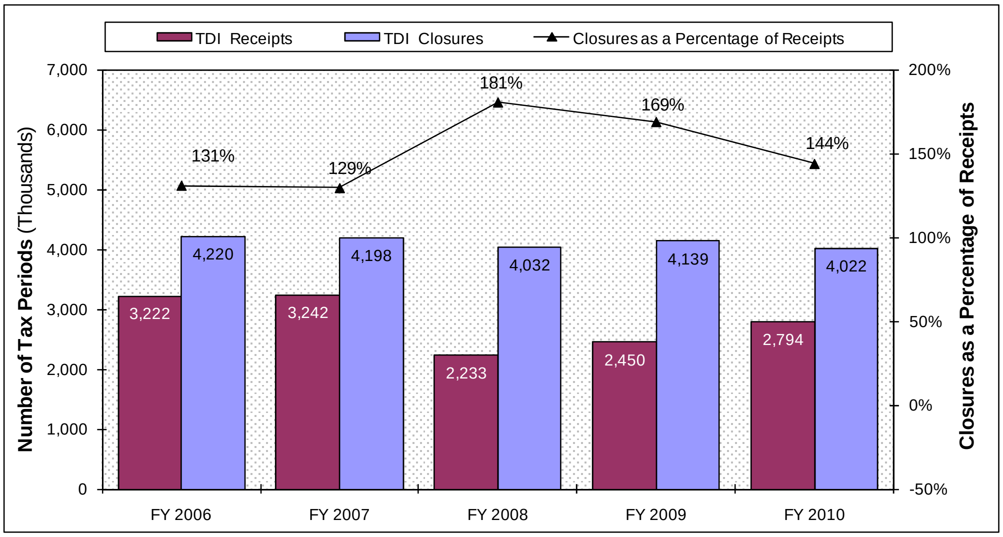
Figure 12: TDA and TDI Tax Periods Shelved or Surveyed



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

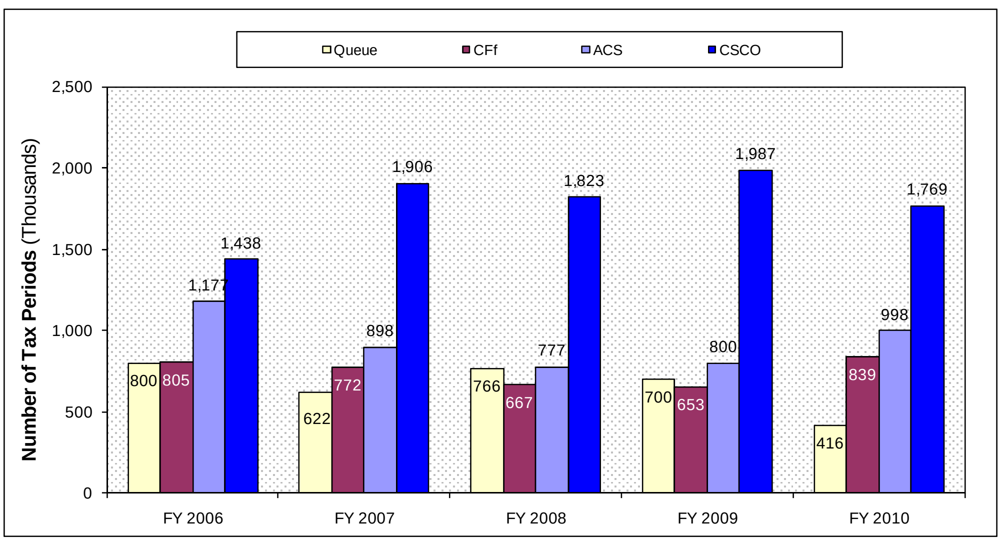
[3] In recent years, the IRS removed from the Queue a large number of TDA cases that were considered to be potentially less productive than other Queue inventory (see Figure 12). The increase in TDAs could be at least partially attributed to the additional compliance assessments from working additional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

Figure 13: Gap Between TDI Tax Period Receipts and Closures, Including TDI Tax Period Closures as a Percentage of Receipts[4]



Source: TIGTA analysis of Collection Report 5000-4.

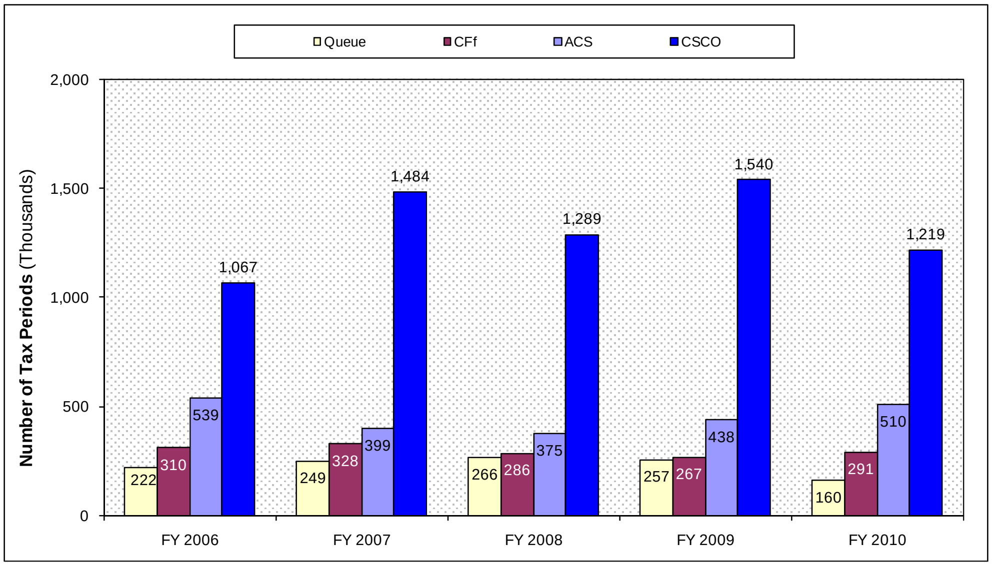
Figure 14: Number of TDI Tax Periods Closed by Collection Functions



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

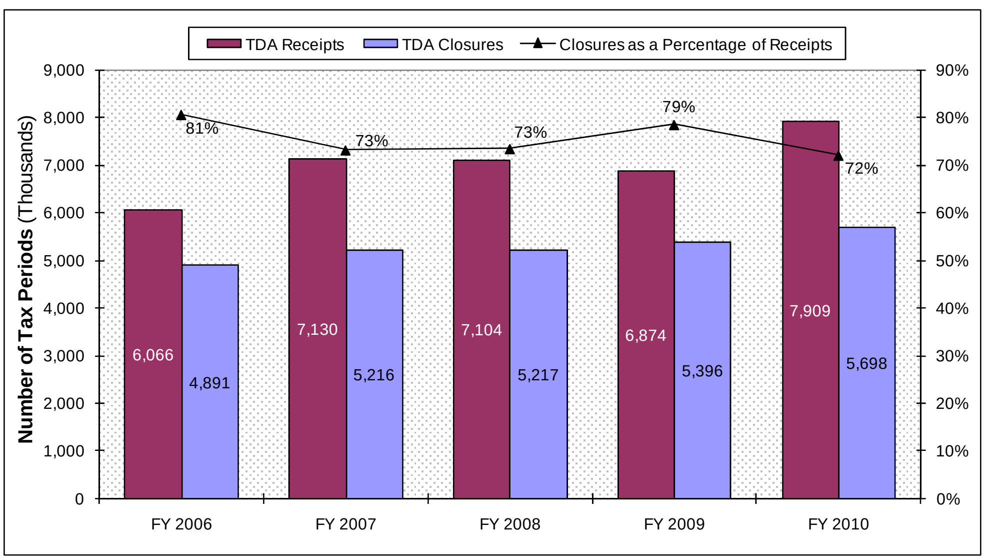
[4] The closures shown in Figures 13 and 14 do not include the TDIs shelved or surveyed, which are shown in Figure 12.

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



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

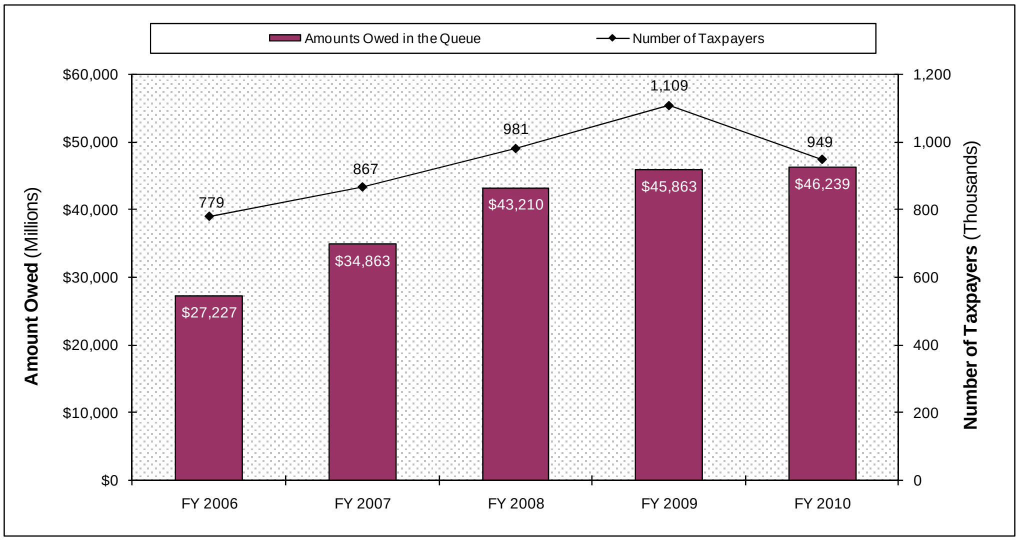
Figure 16: Gap Between TDA Tax Period Receipts and Closures, Including TDA Closures as a Percentage of Receipts[5]



Source: TIGTA analysis of Collection Report 5000-2.

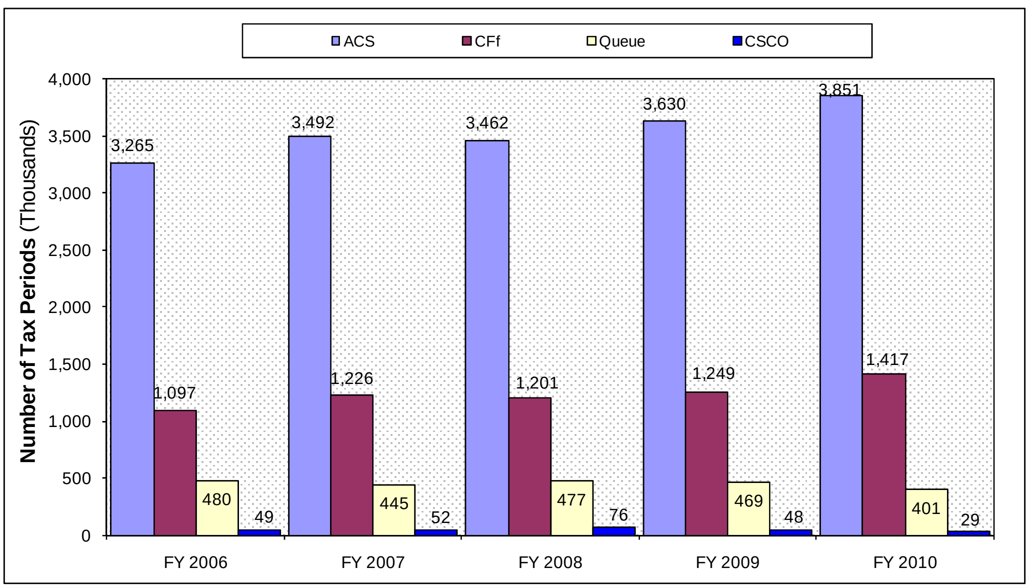
[5] The closures shown in Figure 16 do not include the TDAs shelved, which are shown in Figure 12.

Figure 17: Number of Taxpayers and Amount Owed in Queue Inventory[6]



Source: TIGTA analysis of Collection Report 5000-2.

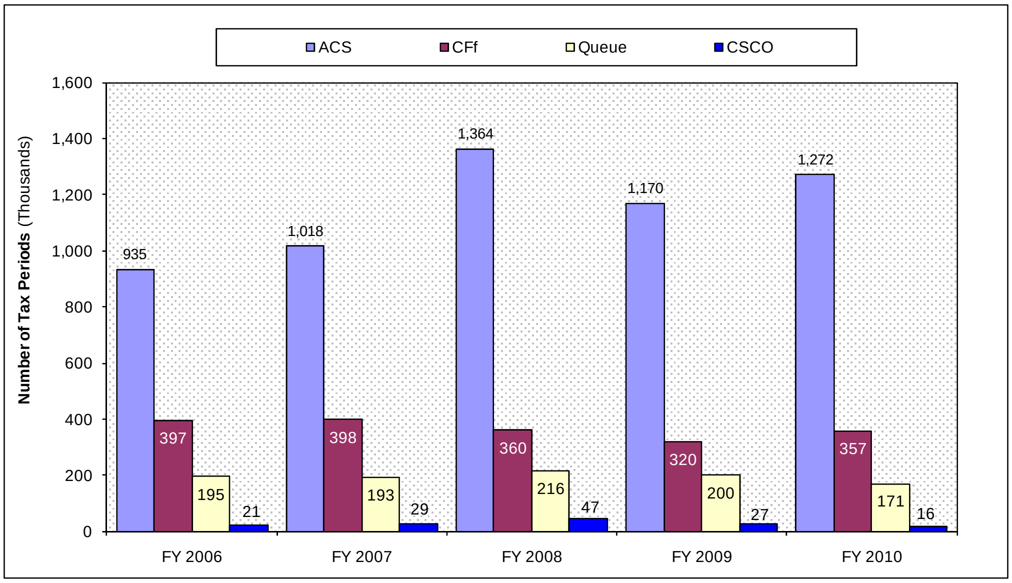
Figure 18: Number of TDA Tax Periods Closed by Collection Functions, Excluding Shelved Accounts



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

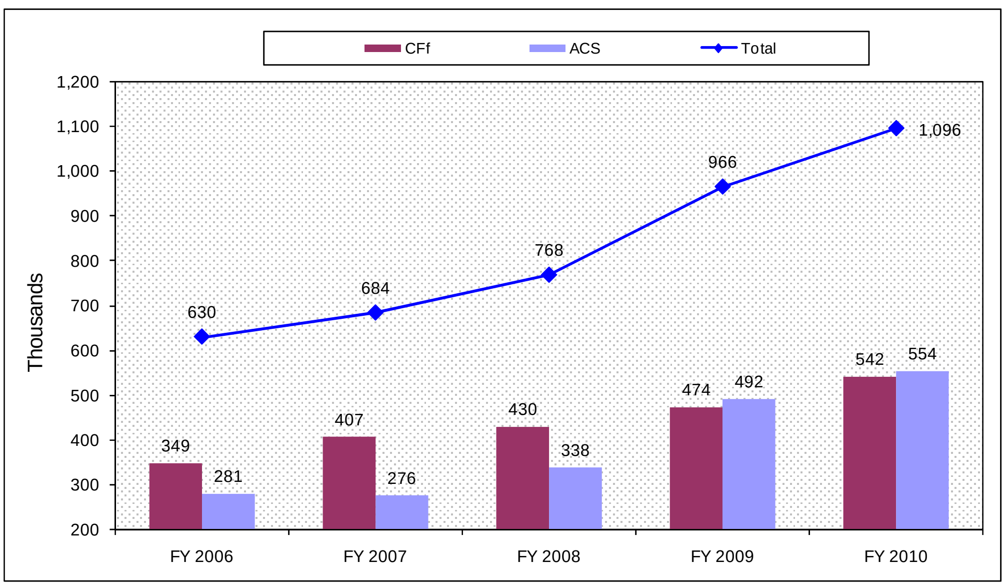
[6] The increase shown here could be at least partially attributed to the additional compliance assessments from working additional Automated SFR cases (Figures 47 and 48) and the declining economy.

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



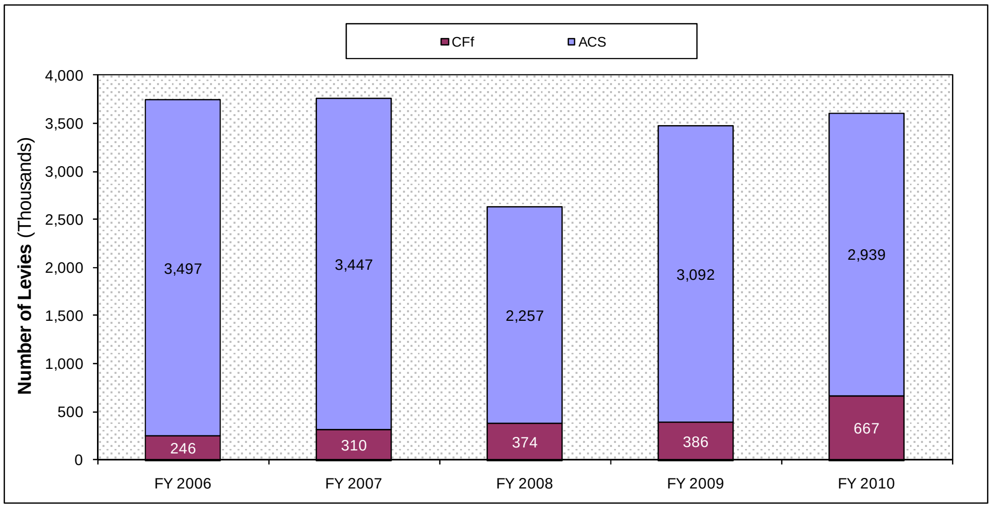
Source: TIGTA analysis of Collection Report 5000-2.
CSCO = Compliance Services Collection Operations.

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



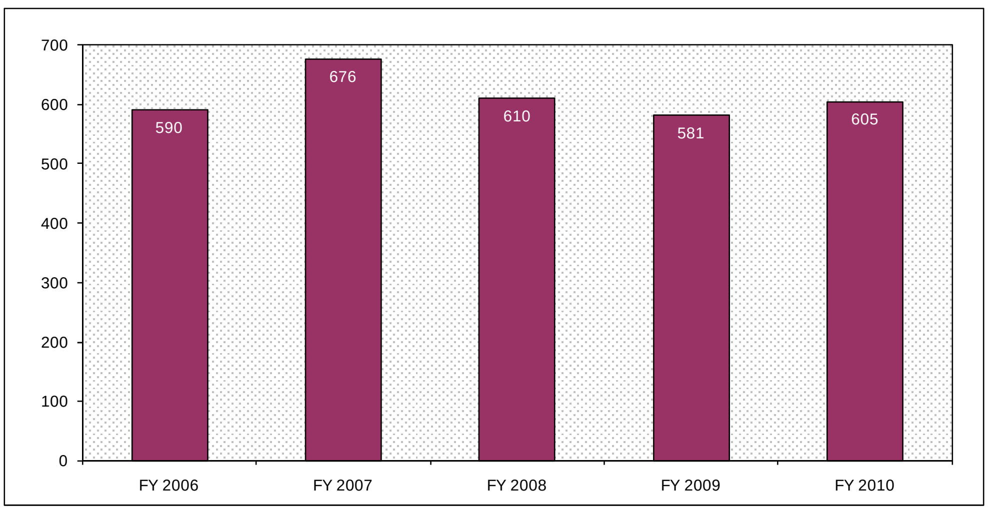
Source: TIGTA analysis of Collection Report 5000-23.

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



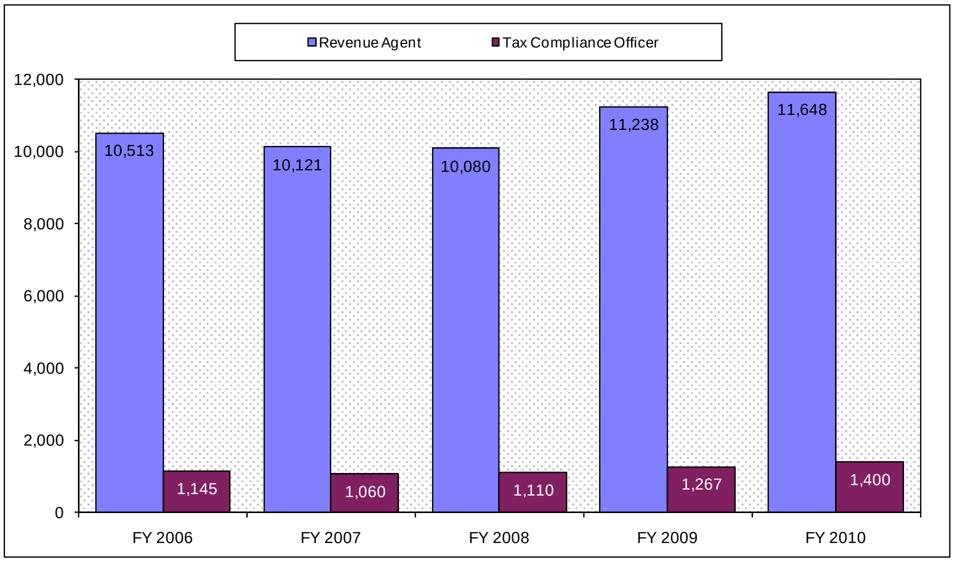
Source: TIGTA analysis of Collection Report 5000-23.

Figure 22: Number of Seizures



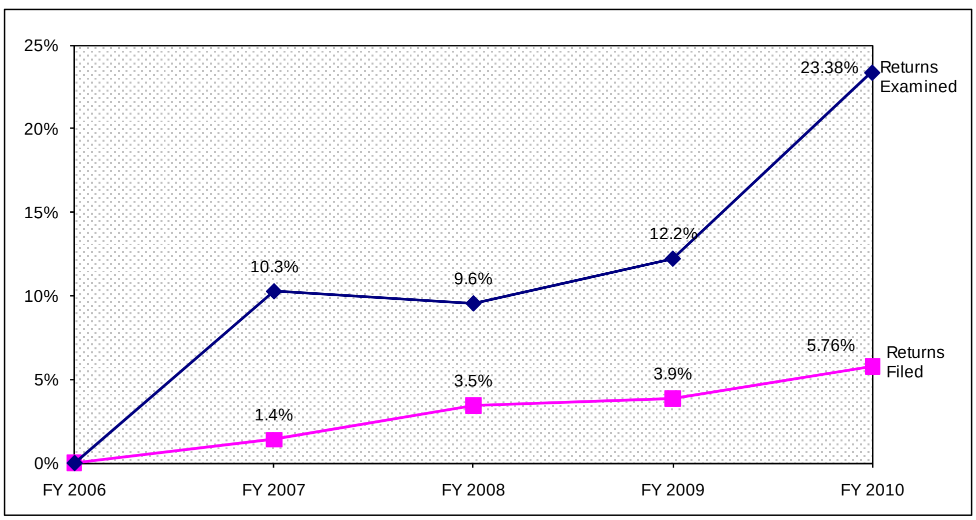
Source: IRS Data Book.

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



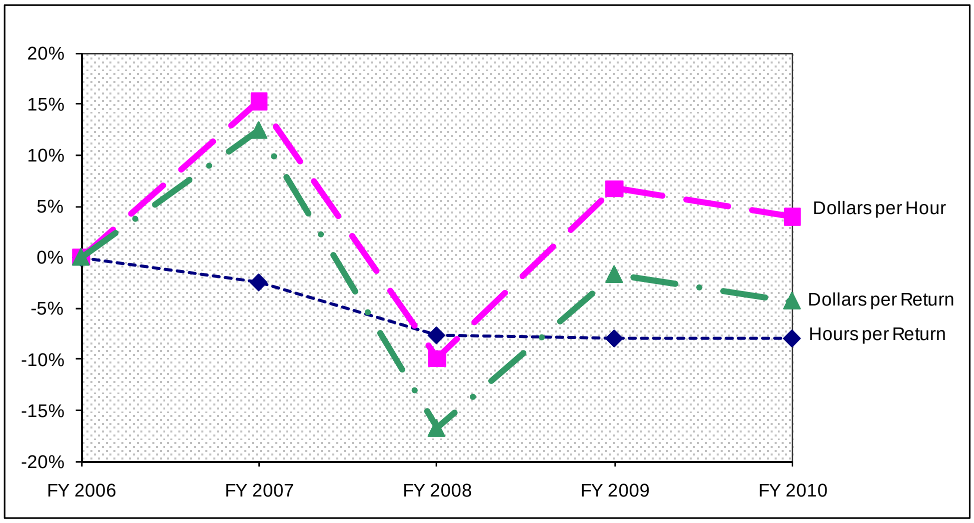
Source: TIGTA analysis of Examination Table 37.

Figure 24: Percentage Change From FY 2006 of All Tax Returns Filed and Examined



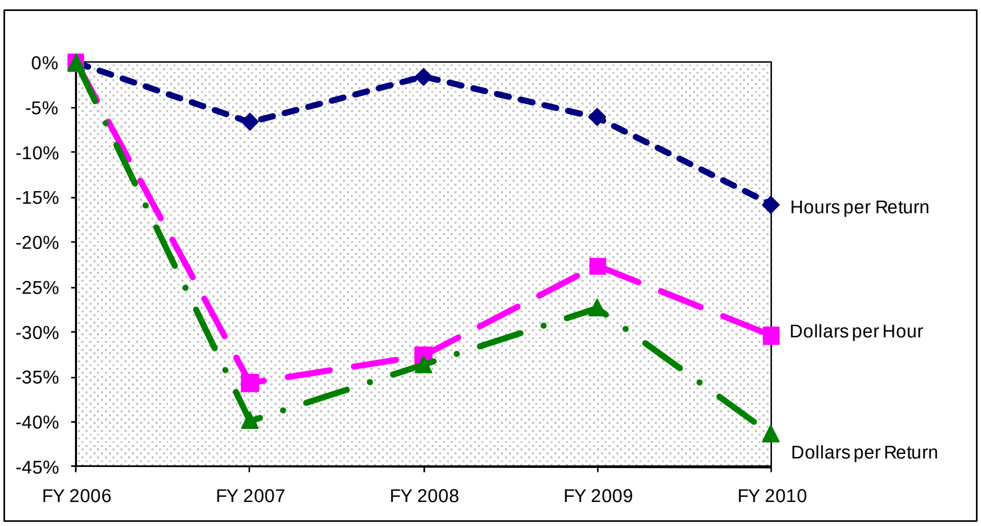
Source: TIGTA analysis of the IRS Data Book.

Figure 25: Revenue Agent Results on U.S. Individual Income Tax Returns (Form 1040), Percentage Change From FY 2006[7]



Source: TIGTA analysis of Examination Table 37.

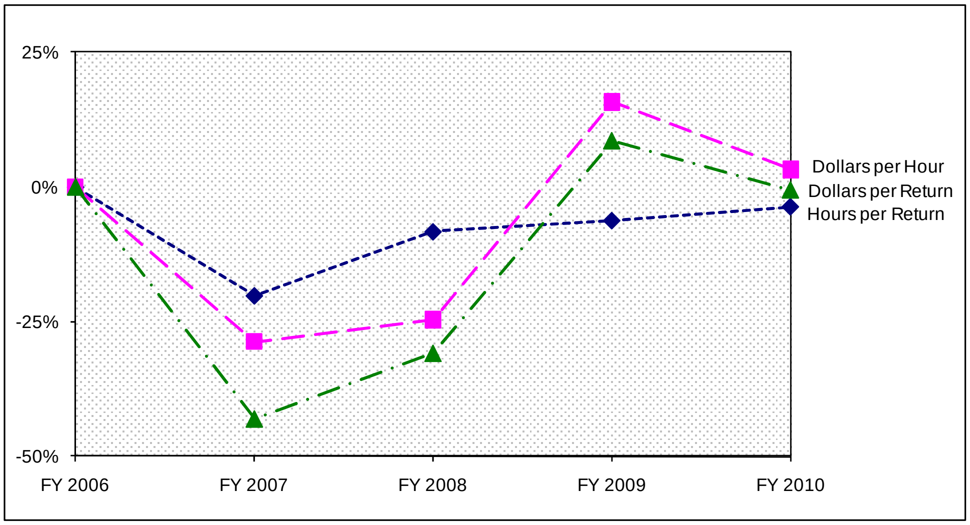
Figure 26: Revenue Agent Results on Corporate Income Tax Returns, Percentage Change From FY 2006



Source: TIGTA analysis of Examination Table 37.

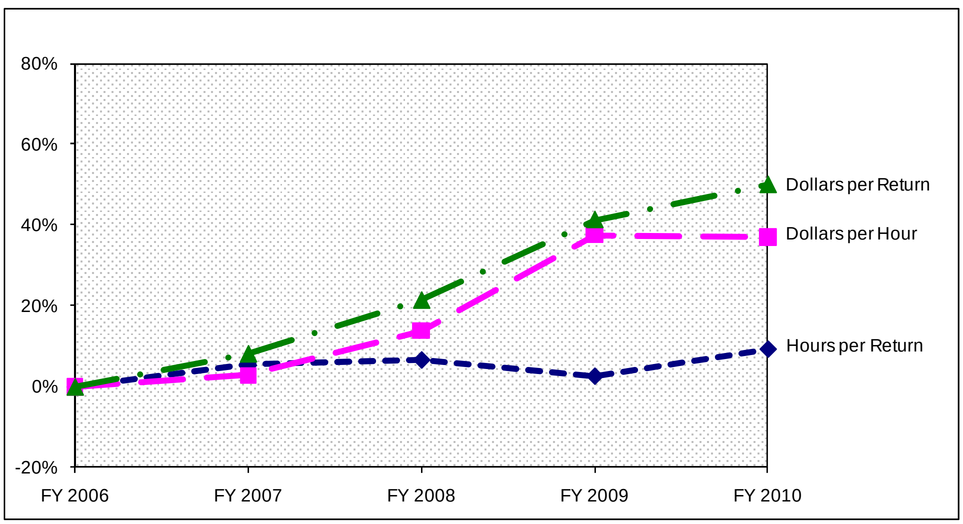
[7] Figures 25 through 29 do not include results from Coordinated Industry Cases or training returns.

Figure 27: Revenue Agent Results on Other Types of Tax Returns, Percentage Change From FY 2006



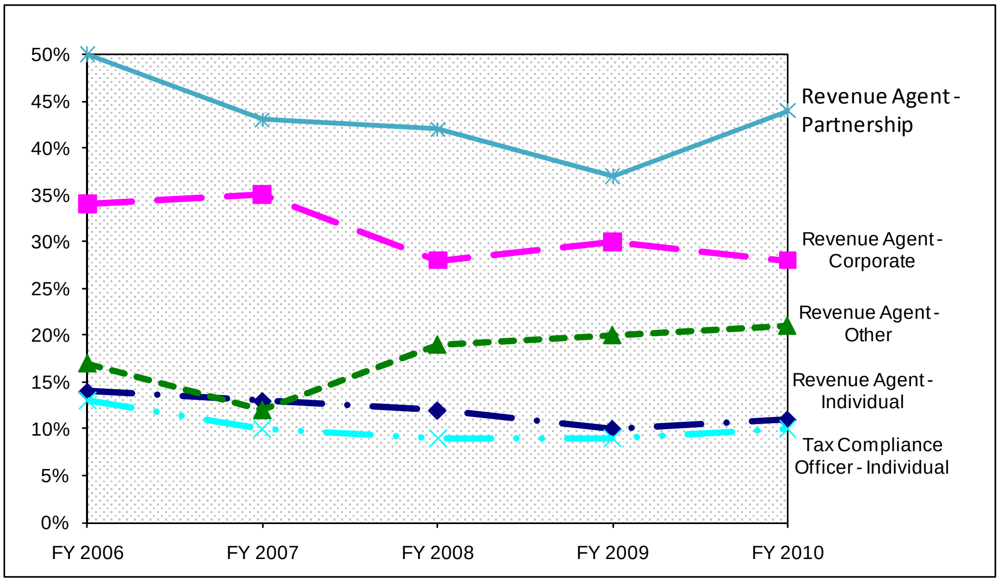
Source: TIGTA analysis of Examination Table 37.

Figure 28: Tax Compliance Officer Results on Forms 1040, Percentage Change From FY 2006



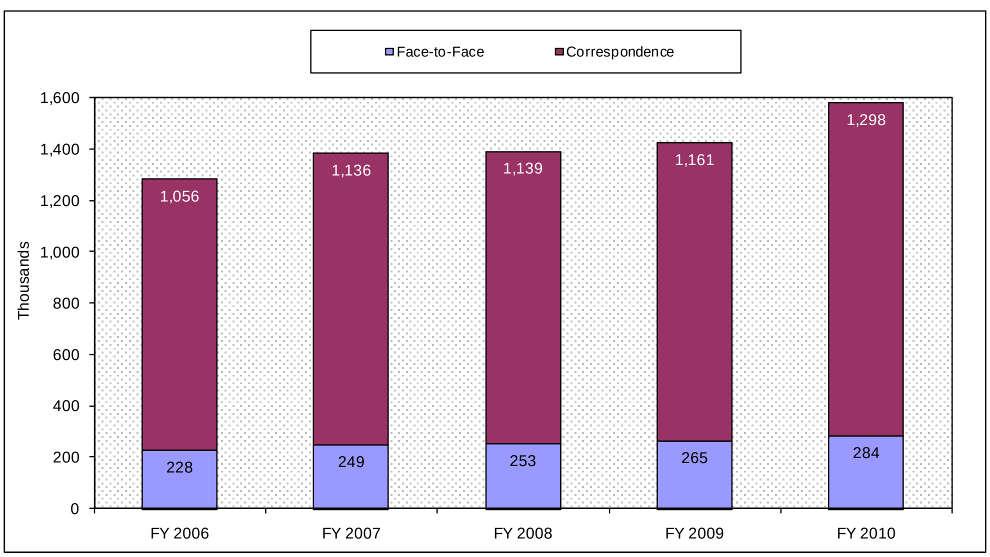
Source: TIGTA analysis of Examination Table 37.

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



Source: TIGTA analysis of Examination Table 37.

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



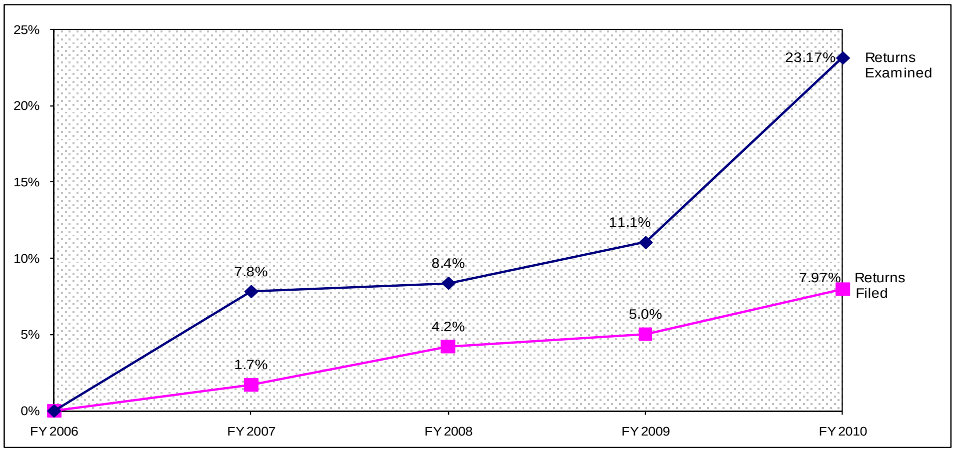
Source: Analysis of Examination Closed Case Database.

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

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Individual Returns					
Individuals (Forms 1040)	1,283,950	1,384,563	1,391,581	1,425,888	1,581,394
Coverage Rate	0.97%	1.03%	1.01%	1.03%	1.11%
Business Returns					
Corporations < $10 Million	17,849	20,020	20,580	18,298	19,127
Coverage Rate	0.80%	0.92%	0.95%	0.85%	0.94%
Corporations $10 Million and Greater	10,578	9,644	9,406	9,536	10,207
Coverage Rate	18.60%	16.81%	15.26%	14.55%	16.58%
S Corporations (Forms 1120S)	13,970	17,657	16,634	17,455	16,327
Coverage Rate	0.38%	0.45%	0.40%	0.40%	0.37%
Partnerships	9,752	12,195	13,203	12,855	12,406
Coverage Rate	0.36%	0.42%	0.42%	0.38%	0.36%
Fiduciaries	3,669	4,544	4,582	5,259	5,298
Coverage Rate	0.10%	0.12%	0.12%	0.17%	0.17%
Employment	41,646	56,738	60,346	64,021	63,937
Coverage Rate	0.13%	0.18%	0.20%	0.21%	0.21%
Excise	16,678	36,018	16,134	17,267	18,249
Coverage Rate	1.99%	4.02%	1.80%	1.85%	2.33%
Estates	5,299	4,616	3,852	4,468	4,288
Coverage Rate	9.66%	7.70%	8.14%	9.26%	10.12%
Gift	2,051	1,490	1,071	1,569	1,777
Coverage Rate	0.77%	0.56%	0.42%	0.61%	0.74%

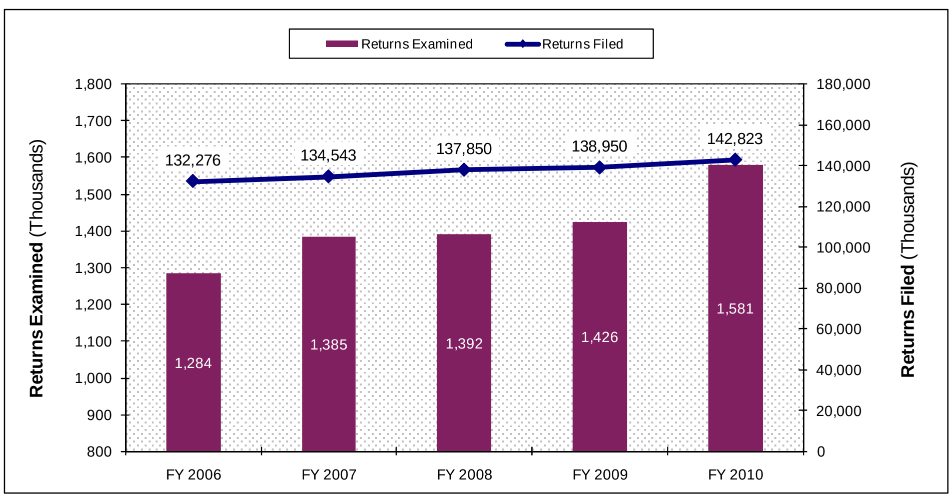
Source: TIGTA analysis of the IRS Data Book.

Figure 32: Percentage Change From FY 2006 of Forms 1040 Filed and Examined



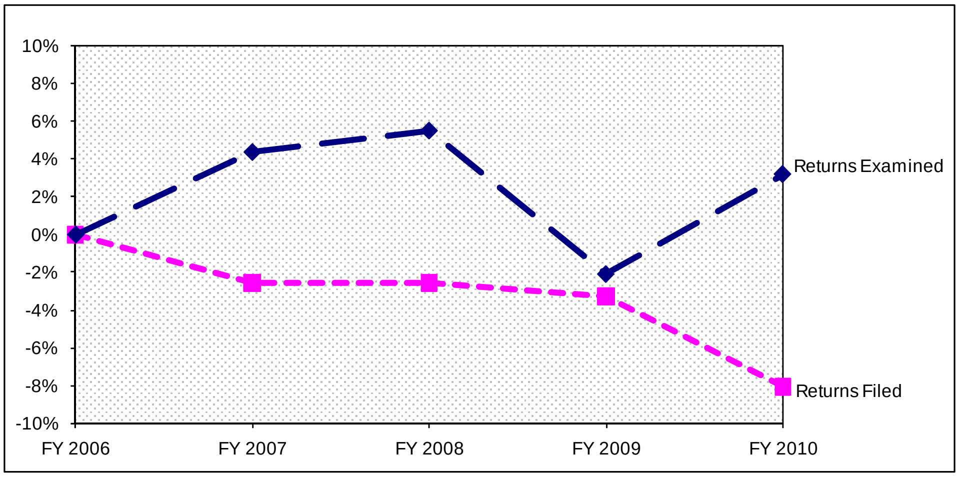
Source: TIGTA analysis of the IRS Data Book.

Figure 33: Number of Forms 1040 Filed and Examined



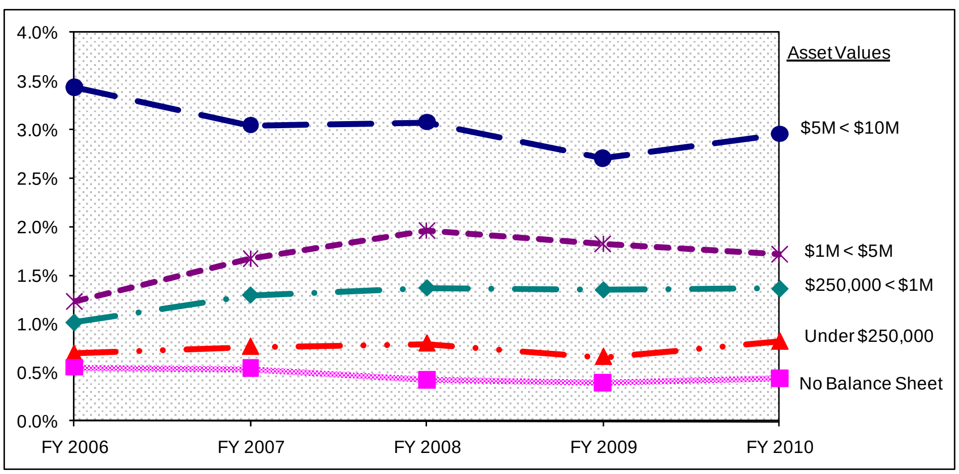
Source: TIGTA analysis of the IRS Data Book.

Figure 34: Percentage Change From FY 2006 of Corporate Income Tax Returns Filed and Examined[8]



Source: TIGTA analysis of the IRS Data Book.

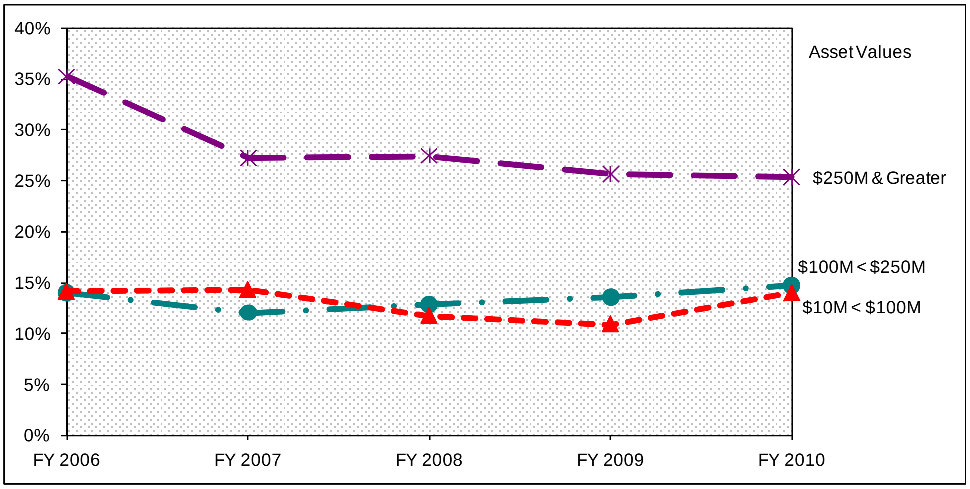
Figure 35: Percentage of Corporate Income Tax Returns Examined – Corporations With Assets of Less Than $10 Million



Source: TIGTA analysis of the IRS Data Book.

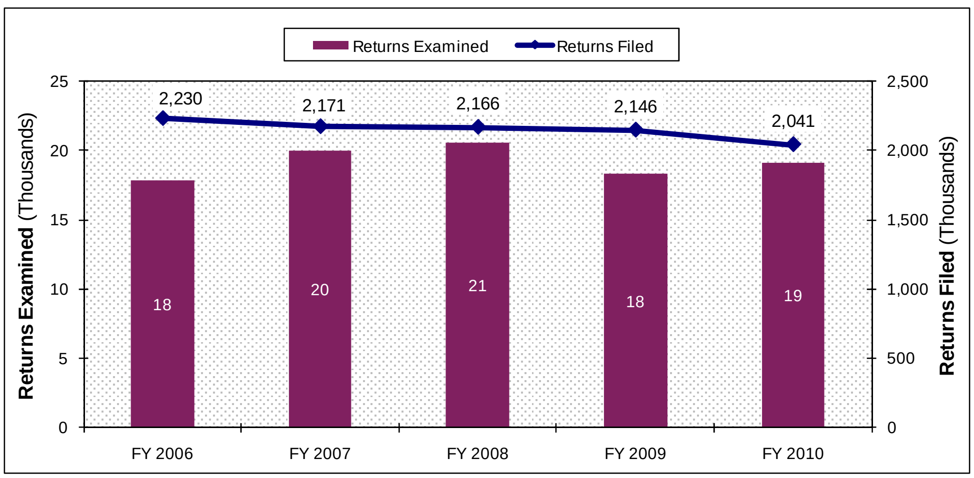
[8] Excludes U.S. Income Tax Return for an S Corporation (Form 1120S), U.S. Income Tax Return of a Foreign Corporation (Form 1120-F), and U.S. Income Tax Return of a Cooperative Association (Form 1120-C).

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



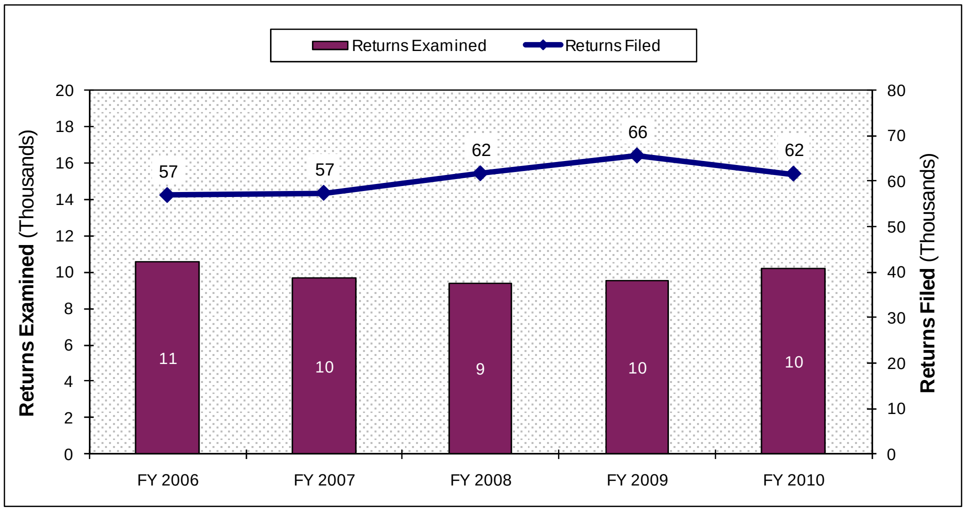
Source: TIGTA analysis of the IRS Data Book.

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



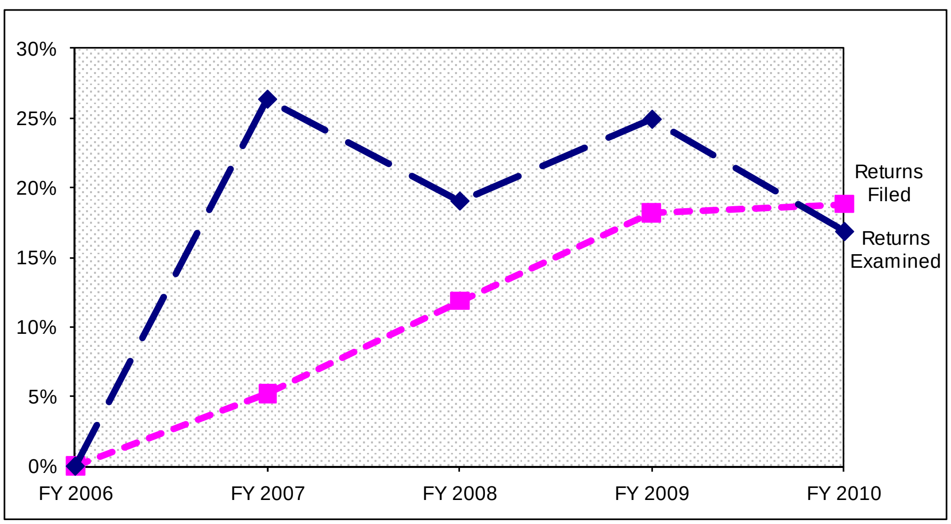
Source: TIGTA analysis of the IRS Data Book.

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



Source: TIGTA analysis of the IRS Data Book.

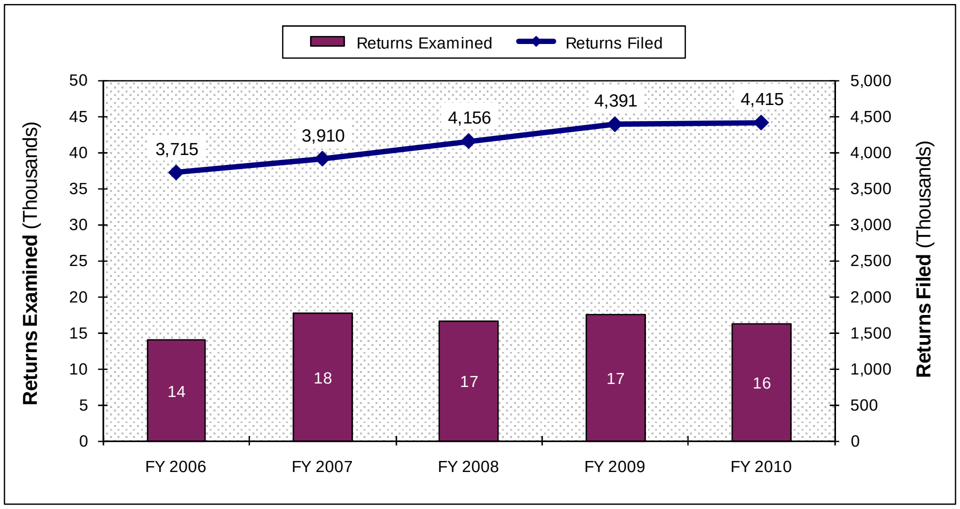
Figure 39: Percentage Change From FY 2006 of Forms 1120S Filed and Examined[9]



Source: TIGTA analysis of the IRS Data Book.

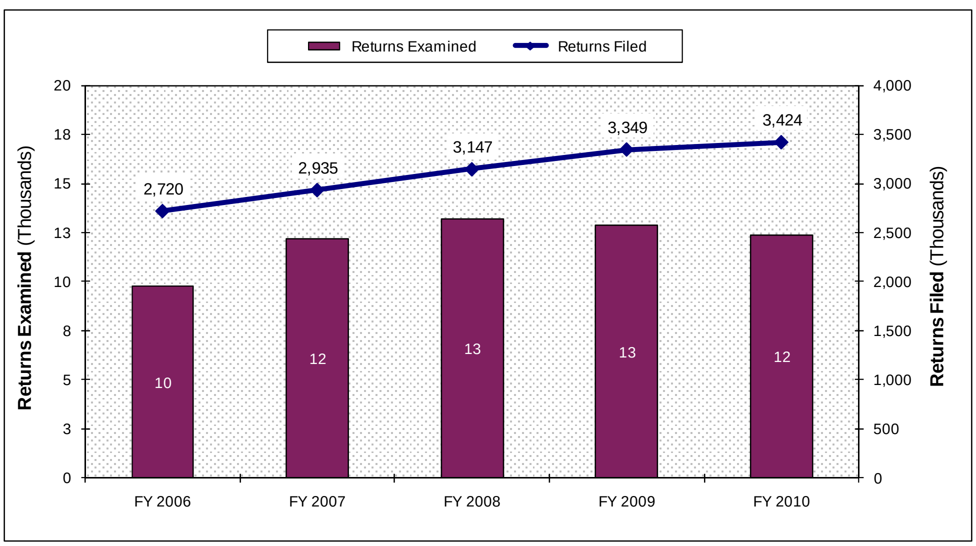
[9] The increase in returns examined coincided with a compliance study of Forms 1120S.

Figure 40: Number of Forms 1120S Filed and Examined



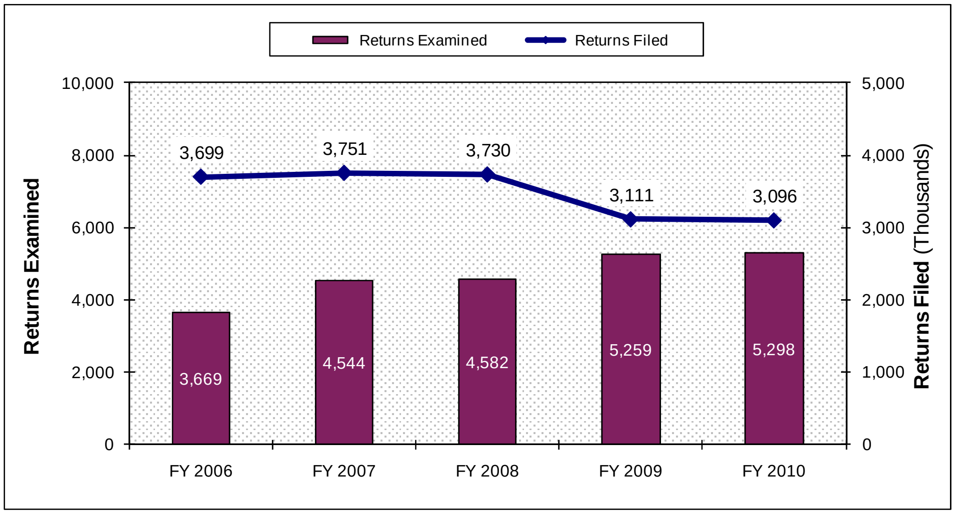
Source: IRS Data Book.

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



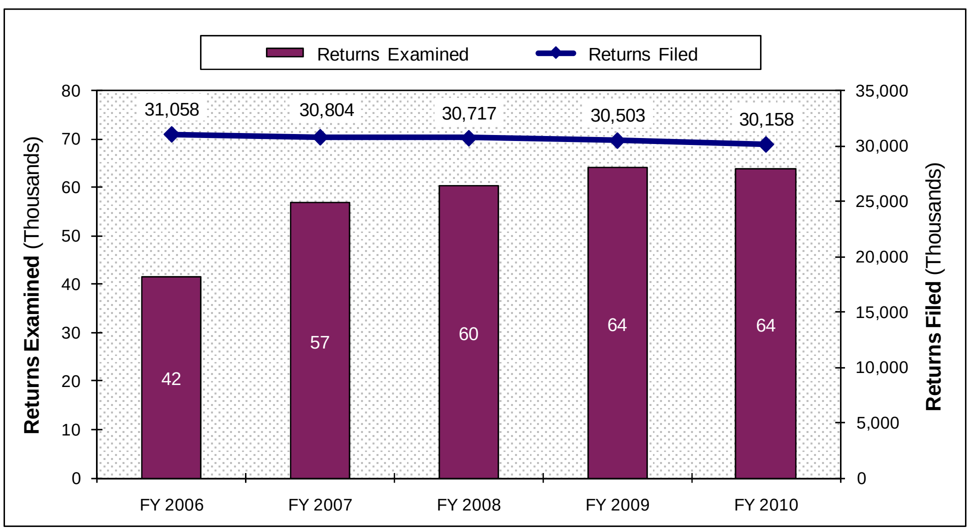
Source: IRS Data Book.

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



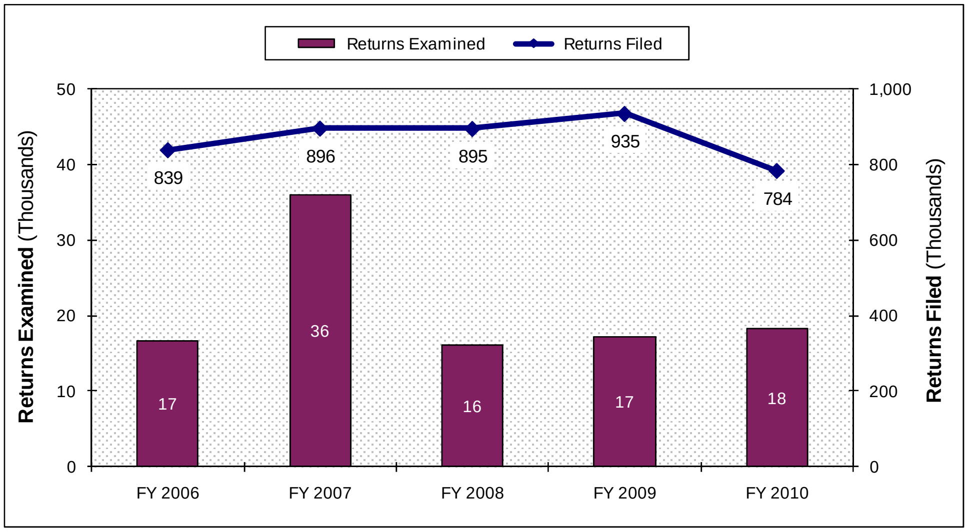
Source: IRS Data Book.

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



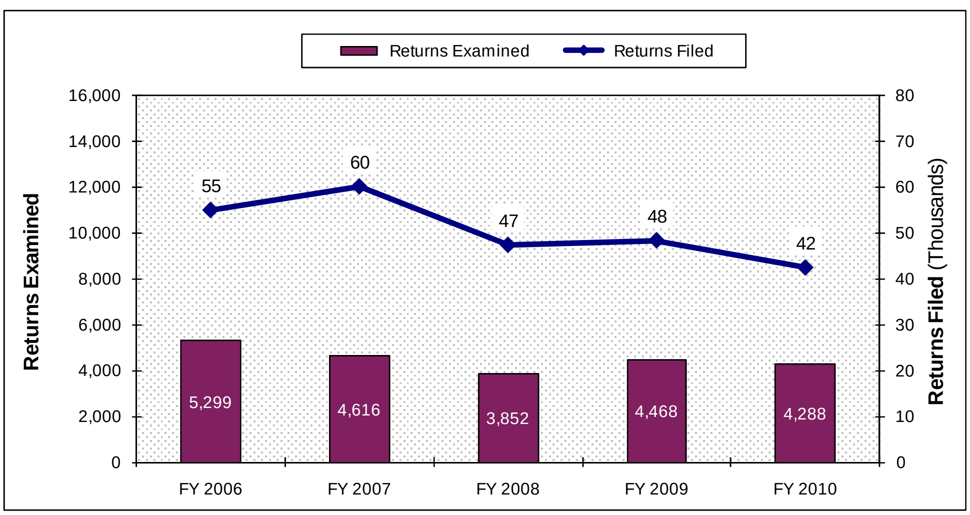
Source: IRS Data Book.

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



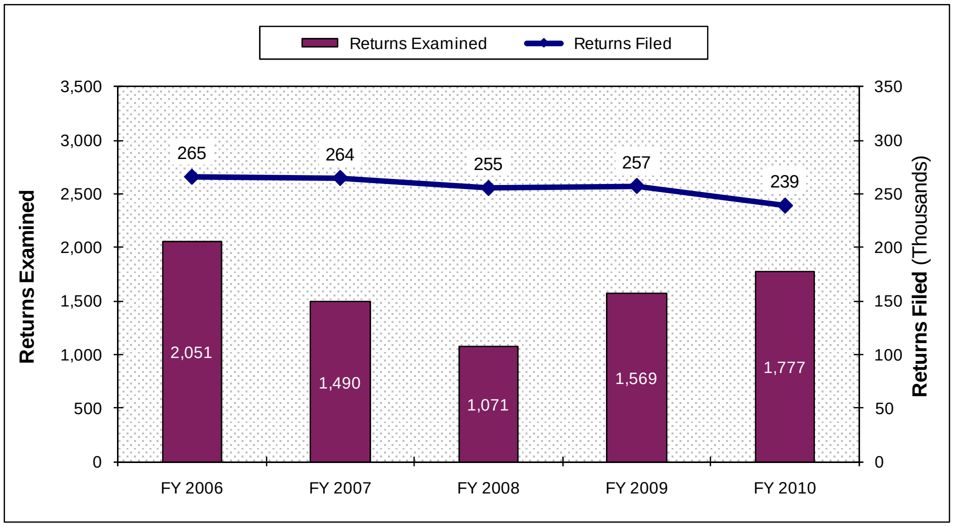
Source: IRS Data Book.

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



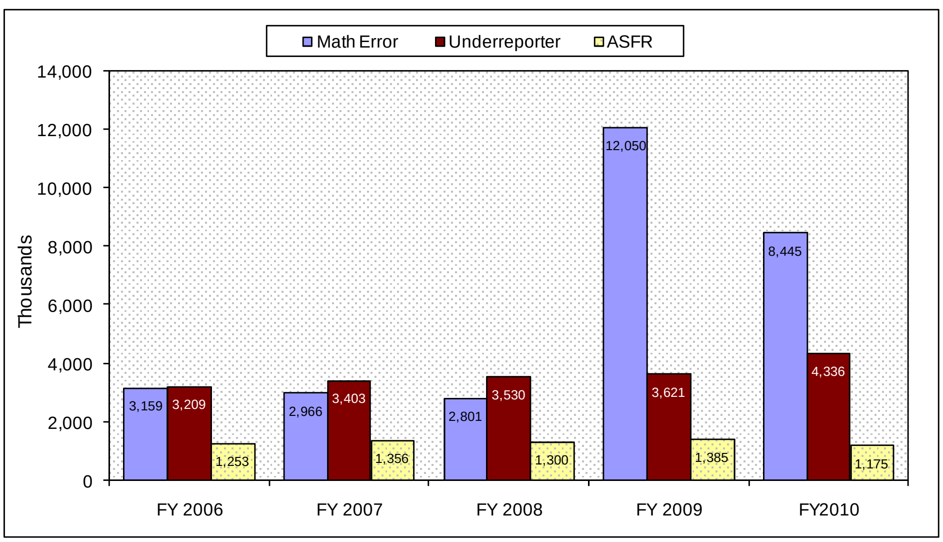
Source: IRS Data Book.

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



Source: IRS Data Book.

Figure 47: Number of Other Compliance Contacts on Forms 1040[10]



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

[10] The spike in FY 2009 is at least partially due to eligible taxpayers whose circumstances changed and who may have claimed a rebate recovery credit to receive some or the entire unpaid portion of an economic stimulus payment. The FY 2009 data include cases where the rebate recovery credit was not claimed on tax returns, but the IRS computed the credit for eligible taxpayers. In FY 2010, the Making Work Pay Tax Credit was a refundable tax credit based on earned income. The FY 2010 data include cases for which the Making Work Pay Tax Credit was not initially claimed on tax returns, but the IRS subsequently computed the credit for eligible taxpayers.

Figure 48: Other Compliance Contacts – Forms 1040 Coverage Rate

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Math Error	3,159,077	2,965,745	2,801,427	12,049,948	8,445,374
Coverage Rate	2.36%	2.21%	2.02%	7.81%	5.86%
Underreporter	3,209,000	3,403,000	3,530,000	3,621,000	4,336,000
Coverage Rate	2.42%	2.54%	2.54%	2.35%	3.01%
ASFR	1,253,000	1,356,000	1,300,000	1,385,000	1,175,000
Coverage Rate	0.94%	1.01%	0.94%	0.90%	0.82%

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

Appendix V

Prior Treasury Inspector General for Tax Administration Compliance Trends Reports

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

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

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

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

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

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

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

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

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

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

Trends in Compliance Activities Through Fiscal Year 2009 (Reference Number 2010-30-066, dated June 10, 2010).

Appendix VI

Glossary of Terms

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

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

Campus – The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

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