



## Treasury Inspector General for Tax Administration Office of Audit

### USING SOFT NOTICES TO ADDRESS REPORTING DISCREPANCIES HAS MERIT, BUT COST AND BENEFIT QUESTIONS REMAIN

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## Highlights

Highlights of Report Number: 2011-30-091 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

### IMPACT ON TAXPAYERS

Guided by its strategic plan, the Internal Revenue Service's (IRS) vision is to make it easier for taxpayers to fulfill their civic responsibility to pay taxes by providing them with world-class service, taking proactive steps to better understand issues from the taxpayer's perspective, and reducing taxpayer burden. Consequently, it will be important for the IRS to understand and minimize the time and resources taxpayers spend dealing with soft notices to increase the likelihood of achieving its vision for improving service to taxpayers.

### WHY TIGTA DID THE AUDIT

The overall objective of this review was to determine whether the Soft Notice Initiative (the Initiative) in the Automated Underreporter Program was effectively implemented and managed to provide IRS officials with reliable information for deciding whether the use of soft notices should be expanded, modified, or terminated. Briefly stated, the notices are designed to serve as an educational tool, encourage self-correction, and improve voluntary compliance. As such, IRS officials consider soft notices an alternative approach for addressing compliance issues outside the IRS's traditional processes in the Automated Underreporter Program.

If determined to be successful, the Initiative could result in permanently using soft notices in the IRS Automated Underreporter Program to address a large number of taxpayers each year who would not ordinarily be contacted by the IRS due to resource constraints. Given this possibility, reliable cost-benefit information may help alleviate concerns that could be raised about why the IRS risks burdening taxpayers and incurring the costs of sending soft notices that result in little or no tax revenue or impact on taxpayer behavior.

### WHAT TIGTA FOUND

Overall, the IRS did an adequate job planning, implementing, and managing the Initiative through its first pilot test. In addition, the 16 measures the IRS used to evaluate the Initiative were accurately computed as reported to its executives in the *Fiscal Year 2010 Soft Notice Report*.

However, TIGTA's evaluation showed that the taxpayer burden measures are not presenting as complete a picture as they could because they do not include any information on the time or money spent by the nearly 14,000 taxpayers who did not respond to the soft notice. Further, the IRS has yet to commit to taking specific actions or establishing a specific date defining how or when it will ensure all costs are quantified and used in determining the net benefit from using soft notices in the Automated Underreporter Program.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Campus Compliance Services, Small Business/Self-Employed Division, and the Director, Compliance, Wage and Investment Division, develop and implement plans to (1) obtain a more complete picture of the time and costs taxpayers are spending on soft notices and (2) determine the net benefit of using soft notices in the Automated Underreporter Program as an alternative approach for addressing compliance issues.

In their response to the report, IRS officials agreed with the recommendations and plans to continue soliciting feedback from taxpayer responses and evaluating the net benefits derived from soft notices. Although IRS officials agreed with the recommendations, their corrective actions do not address the conditions that gave rise to the recommendations.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2011reports/201130091fr.pdf>