



Treasury Inspector General for Tax Administration Office of Audit

COLLECTION FIELD FUNCTION PROCEDURES WERE NOT ALWAYS FOLLOWED WHEN ASSESSING TAXES ON BUSINESSES THAT HAVE NOT FILED TAX RETURNS

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Highlights

Highlights of Report Number: 2012-30-110 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The IRS has the ability to prepare returns and assess taxes under the authority of Internal Revenue Code (I.R.C.) Section (§) 6020(b) when business taxpayers do not file required returns or file false or fraudulent returns. However, case histories for I.R.C. § 6020(b) business assessments made by Collection Field function revenue officers (RO) did not always contain the proper documentation to support the reason for the assessment, which increases the risk of an improper assessment. In addition, ROs did not always allow taxpayers 30 calendar days to respond to proposed assessments prior to processing the 6020(b) returns, which potentially violates the taxpayers' rights.

WHY TIGTA DID THE AUDIT

Collection Field function 6020(b) assessments have increased significantly in recent years. In Fiscal Year 2011, \$1.64 billion in 6020(b) assessments entered the collection stream. TIGTA initiated this audit to evaluate the impact of the Collection Field function's use of I.R.C. § 6020(b) authority on taxpayer compliance and to determine whether employees are using the proper procedures to assess tax liabilities.

WHAT TIGTA FOUND

TIGTA reviewed a statistical sample of 96 6020(b) assessments and determined that ROs followed many of the required procedures. However, in 20 (21 percent) cases, there was no evidence for the basis of assessments. In addition, in 10 (10 percent) cases, ROs did not allow, or there was no evidence to support the allowance of, the required 30 calendar days for taxpayers to respond to proposed assessments prior to the IRS processing the 6020(b) returns.

TIGTA also determined that during Calendar Year 2008, taxpayers with stand-alone 6020(b) assessments

(assessments made in which the taxpayers had potential delinquent returns due but no outstanding tax liabilities) were less compliant in subsequent years than taxpayers without 6020(b) assessments. However, a more in-depth study of delinquent returns in which the use of I.R.C. § 6020(b) authority was considered but not used may be needed to better understand these results. The IRS does not track subsequent filing compliance when I.R.C. § 6020(b) authority is used.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Enterprise Collection Strategy, Small Business/Self-Employed Division: 1) develop an internal control to help ensure ROs properly document a complete explanation for the basis of 6020(b) assessments, 2) develop an internal control to allow taxpayers 30 calendar days to respond to proposed assessments before submitting returns for processing, and 3) establish a methodology to compare actual results with management's anticipated benefit of improving filing compliance when I.R.C. § 6020(b) authority is used for business taxpayers.

In their response to the report, IRS officials agreed with all three recommendations. Specifically, the IRS plans to: 1) initiate a change to the Integrated Collection System to help ensure ROs document the required basis for the 6020(b) assessment, 2) initiate a change to the Integrated Collection System to help ensure ROs allow taxpayers 30 calendar days to respond to the proposed assessment before submitting the prepared returns for processing, and 3) request a research project to measure the effectiveness of the Collection Field function I.R.C. § 6020(b) program on future filing compliance of business taxpayers and weigh the results against ultimate case resolution to determine if any program changes are warranted.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2012reports/201230110fr.pdf>.