Treasury Inspector General for Tax Administration
Office of Audit

CONTROLS OVER PARTIAL PAYMENT INSTALLMENT AGREEMENTS CAN BE IMPROVED

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Highlights

Highlights of Report Number: 2013-30-040 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

IMPACT ON TAXPAYERS

Taxpayers who enter into a Partial Payment Installment Agreement (PPIA) will not fully pay all of their delinquent tax liability, so it is important that PPIAs are carefully and accurately administered. However, the IRS is not always properly monitoring or establishing PPIAs. If the IRS does not effectively pursue collection of unpaid tax through the use of PPIAs, it could create an unfair burden on the majority of taxpayers who fully pay their taxes on time.

WHY TIGTA DID THE AUDIT

Because taxpayers with PPIAs will not fully satisfy their delinquent tax liability, it is critical that they pay the maximum amount determined by a complete financial analysis. This audit was initiated to determine whether the IRS was following procedures when establishing and monitoring PPIAs.

WHAT TIGTA FOUND

When establishing a PPIA, the IRS is required to complete a financial analysis of the taxpayer and assess the financial condition of taxpayers with a PPIA every two years. TIGTA reviewed a random sample of 100 PPIAs and found that the two-year reviews were not always properly performed and that some PPIAs were established without a complete financial analysis and/or manager approval.

To begin the two-year financial assessment, the IRS performs an automated review process of PPIAs at the two-year mark. However, the automated two-year review processes did not occur in eight (10 percent) of the 84 PPIAs requiring a two-year review. If the automated review process determines that the financial condition of the taxpayer may have improved, a manual review is required. However, the manual reviews were not performed properly for 15 (52 percent) of the 29 PPIA cases for which a manual review was required. IRS procedures do not require managers to review or approve the results of the two-year review of PPIAs.

In addition, 15 (15 percent) of 100 PPIAs sampled were established without a complete financial analysis. Without a complete financial analysis, there is a higher risk that the taxpayers are not paying the maximum amount they can afford or that they are unable to afford the amount in the agreement. Further, 34 (34 percent) of the 100 PPIAs did not have evidence that the manager approved the PPIA. The absence of documented manager approval indicates that the managers are not reviewing the PPIAs before they are established.

The IRS Collection Process Study report recommended that the IRS expand the use of PPIAs by offering a modified minimum PPIA to all individual taxpayers in uncollectible status. The report estimated that if PPIAs were offered to 230,000 individual taxpayers classified as unable to pay, the collection potential could be as high as $69 million annually. TIGTA was advised that the IRS does not have plans to implement this recommendation due to limited resources.

WHAT TIGTA RECOMMENDED

TIGTA made several recommendations to improve controls over the two-year review process and establishment of PPIAs. TIGTA also recommended that management test the viability of expanding the use of PPIAs on a sample of taxpayers in uncollectible status.

In their response to the report, IRS officials agreed or partially agreed with six of the seven recommendations. The IRS plans to revise procedures to improve controls over the two-year review process and plans to establish controls to prevent PPIAs from being established without manager review or approval. The IRS did not agree with the recommendation to test the viability of expanding the use of PPIAs, stating that it conducted similar tests with the Offer in Compromise program for taxpayers in currently not collectible status, which did not yield significant results.

The IRS's tests involved taxpayers who were asked to consider applying for an Offer in Compromise, not a PPIA. Because of the differences between the two programs, TIGTA does not believe it is appropriate to draw conclusions about taxpayer willingness to establish a PPIA. For example, unlike a PPIA, taxpayers entering into an Offer in Compromise may have to pay 20 percent of their balance due before the IRS will consider their request.

READ THE FULL REPORT

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

http://www.treas.gov/tigta/auditreports/2013reports/201330040fr.pdf.