



## Treasury Inspector General for Tax Administration Office of Audit

### RECALCULATIONS OF THE COLLECTION STATUTE EXPIRATION DATE WERE NOT ALWAYS ACCURATE

Issued on September 16, 2013

## Highlights

Highlights of Report Number: 2013-30-098 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

### IMPACT ON TAXPAYERS

The Collection Statute Expiration Date (CSED) ends the Government's right to pursue collection of a tax liability and is generally 10 years from the tax assessment date. Some situations require the CSED to be recalculated. However, the CSED is not always recalculated accurately. A CSED incorrectly calculated beyond the actual statute of limitations may result in unlawful collection activity and violate a taxpayer's rights. Conversely, the IRS could potentially lose revenue if an inaccurate CSED appears to have expired when the debt is still collectible.

### WHY TIGTA DID THE AUDIT

Over the years, the IRS has taken steps in an attempt to improve CSED accuracy. However, the National Taxpayer Advocate has reported miscalculated CSEDs as one of the most serious problems encountered by taxpayers. This audit was initiated to determine whether CSED recalculations were properly and accurately completed to effectively protect taxpayers' rights and the Government's interest.

### WHAT TIGTA FOUND

Test results of a statistical sample of 75 tax modules from a population of 1,085 with manually recalculated CSEDs showed that 29 (39 percent) of the 75 tax modules contained errors. Twenty-one had inaccurate CSEDs and eight were missing the required documentation to support the CSEDs. Based on the results of our case review from a population of 1,085 tax modules that were manually recalculated between July 1, 2011, and June 30, 2012, we estimate that CSEDs for 260 tax modules were extended longer than they should have been, 43 tax modules were not

extended as long as they should have been, and 116 tax modules were unverifiable.

Most errors were made by employees. These employees generally request CSED recalculations through the Integrated Collection System, and the request is systemically sent to the requesting employee's manager for approval. Managerial approval is required when CSEDs are extended or updated for any reason. However, the current internal controls requiring managerial approval are not effectively ensuring the accuracy of manually recalculated CSEDs.

An IRS computer system recalculates most CSEDs systemically. Random samples from eight separate activities that trigger systemic CSED recalculations showed that all CSEDs were accurate for six of the eight activities. However, the CSED recalculations were not always accurate for modules involving bankruptcies or estates.

TIGTA also identified nine taxpayers who received an annual balance due reminder notice after the CSED expired.

### WHAT TIGTA RECOMMENDED

To improve the accuracy of CSED recalculations, TIGTA recommended that the IRS: 1) strengthen controls to ensure that manual CSED recalculations are accurate and properly reviewed and approved; 2) ensure that pending programming corrections are implemented for bankruptcy recalculations; and 3) determine what action is necessary to mitigate the potential burden on taxpayers who received reminder notices after the CSED expired.

In their response to the report, the IRS agreed with all of TIGTA's recommendations and has taken or plans to take corrective actions. Specifically, the IRS plans to: 1) revise the Internal Revenue Manual to require employees to include the manual CSED computation steps in the case history for the group manager to review for accuracy and appropriateness when approving a CSED update; 2) determine the appropriate programming correction(s) needed for bankruptcy recalculations; and 3) explore options to mitigate the potential burden on taxpayers who received the annual reminder notice in error and determine which option(s), if any, to pursue.

### 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/201330098fr.pdf>